

JPRS-EEI-84-100

5 September 1984

East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS



FOREIGN BROADCAST INFORMATION SERVICE

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

5 September 1984

EAST EUROPE REPORT

ECONOMIC AND INDUSTRIAL AFFAIRS

CONTENTS

BULGARIA

Foreign Trade Development in First Quarter of 1984 (IZNOS I VNOS, No 1, 1984)	1
Minister Examines New Economic Mechanism-Foreign Trade Relationship (Khristo Khristov; VUNSHNA TURGOVIYA, Nos 5, 6, 1984)	3

CZECHOSLOVAKIA

Preparations, Problems of Strategic Planning to Year 2000 (Michal Spak, Jan Voboril; HOSPODARSKE NOVINY, 1 Jun 84)	21
Prices Said To Reflect Development of Economy (Vlastimil Boura; HOSPODARSKE NOVINY, 13 Jul 84)	32
Fuel-Energy Developments in Seventh 5-Year Plan (Miroslav Fiser; PLANOVANE HOSPODARSTVI, No 4, 1984)	40
Iron Industry's Effect on Air Pollution (Oldrich Bohus; HUTNIK, No 5, May 84)	52
Electronic Industry Results Reviewed (HOSPODARSKE NOVINY, 1 Jun 84)	58
Challenges of Environmental Protection Considered (Jan Koncel; KONTROLA, No 3, 4, Mar, Apr 84)	61
Problem of Land Use for Grain, Fodder Crops (Julius Medved; NOVE SLOVO, 12 Jul 84)	82

HUNGARY

Planning Officials Explain Timing, Goals of Reform Measures (Miklos Pulai, Ferenc Vissi; TARSADALMI SZEMLE, Nos 7-8, 1984)	85
---	----

Economic Consolidation, Development Possibilities Discussed (Rezso Nyers, Marton Tardos; GAZDASAG, No 1, 1984)	100
Official Quizzed on Economic Guidance, Technical Progress (Miklos Pulai Interview; NEPSZABADSAG, 11 Jul 84)	122
Building Permit Process Regarded as Too Slow ; (Istvan Graner; MAGYAR HIRLAP, 19 Jul 84)	127
Establishment, Situation of Mixed Enterprises Detailed (OTLET, No 29, 19 Jul 84)	130
Overregulation Hinders Progress, by Gabor Rejto Economic Institute Official Elaborates, Andras Inotai Interview FRG Businessman Describes Efforts, Daniel Nadj Interview Legal Ambiguities, Contradictions, Emilia Sebok Interview Mixed Enterprises in Ireland The Odd Couple, Miklos Szebeny Interview	

POLAND

Financing of Environmental Protection Assessed (Ewa Bogacka-Kisiel, Zbigniew Traczynski; AURA, No 6, Jun 84)	146
--	-----

FOREIGN TRADE DEVELOPMENT IN FIRST QUARTER OF 1984

Sofia IZNOS I VNOS in Bulgarian No 1, 1984 p 3

[Report: "Development of Foreign Trade in the Bulgarian People's Republic During the First Quarter of 1984;" information formerly published in STATISTICHESKI BYULETIN--VNOS I IZNOS]

[Text] The foreign economic relations of the Bulgarian People's Republic continued to increase and expand during the first quarter of 1984 as well. Trade during that period totaled 5,516,500,000 f.e. (foreign exchange) leva, or a 2.2 percent increase compared to the first quarter of 1983. Exports increased by 3.2 percent and imports by 1.1 percent.

The most considerable development of our trade was with the socialist countries, the CEMA member countries in particular.

In the group of socialist countries the USSR continues to hold first place in our foreign trade. Our trade with that country reached 3.3 billion f.e. leva, or 74 percent of our overall trade with the socialist countries. Following the USSR were the GDR, with 319.8 million f.e. leva (7.2 percent); Czechoslovakia, 234.9 million (5.3 percent); Poland, 189.9 million (4.3 percent) and others.

During the first quarter of this year trade with the developed capitalist countries remained on the level of the same period in 1983. Trade with a number of individual countries declined but trade with some of our main partners increased somewhat, as follows: FRG, by 25.4 million f.e. leva (21.9 percent); Switzerland, 14.9 million (23 percent); France, 4.5 million (16 percent), etc.

Among the developing countries Libya remained our biggest foreign trade partner. During the first quarter of the year trade with that country reached 234.3 million f.e. leva or 45.8 percent of the total trade with the developing countries. Compared to the same period in 1983 trade increased by 16.9 percent.

The positive trend of improvements in the trade structure was retained. The volume and share of highly processed items is steadily increasing in our exports.

Compared with the first quarter of 1983 the following additional amounts were exported: machines and equipment for industrial purposes worth 155 million

f.e. leva; chemicals, 11.2 million; construction materials and parts, 4 million; industrial consumer goods (noncomestible), 29.6 million.

Among the commodities imported during the first quarter of the year the highest share was that of fuels, mineral raw materials and metals--46 percent --and machines and equipment for industrial purposes--33.8 percent.

Compared with the same period in 1983, during the first quarter of this year the following additional amounts were exported: lathes, 200; milling machines, 25; drills, 18; timber processing machines, 258; telephone sets, 9,500; radio telephones, 3,500; automobile batteries, 5,800; electric cars, 300; electric power, 45.5 million kilowatt hours; steel sheets, 1,600 tons, etc.

Imports of some consumer goods, such as watches, television sets, refrigerators, washing machines and some varieties of southern fruits increased considerably.

5003

CSO: 2200/165

MINISTER EXAMINES NEW ECONOMIC MECHANISM-FOREIGN TRADE RELATIONSHIP

Sofia VUNSHNA TURGOVIYA in Bulgarian Nos 5, 6, 1984

[No 5 pp 3-8]

[Article by Khristo Khristov, minister of foreign trade]

[Text] As we know, a number of changes and additions were made in the economic mechanism for the management of the national economy with Council of Ministers decree No 2 of 31 January 1984. The amendments and supplements to the economic mechanism, which were enacted as of 1 January 1984, lead to its improvement, for which reason their creative and comprehensive application in practical work will inevitably enhance the quality of socialist economic management.

The steady advancement of the economic mechanism must be considered an important and a necessary process. In the course of the application of the economic mechanism during the 8th Five-Year Plan significant experience was gained and a number of new theoretical problems and practical approaches were developed on the role of management in the further development of a developed socialist society.

In this respect the stipulations, principles and practical approaches developed by Comrade Todor Zhivkov, BCP Central Committee general secretary, at the 12th Party Congress and the plenums which followed it, the national conferences and his lectures at the Academy of Social Sciences and Social Management and in his report note to the BCP Central Committee Politburo "On Some Urgent Problems of the Application of the Economic Mechanism and Management Improvements," discussed and adopted at the January 1984 BCP Central Committee Plenum, are of basic significance.

The amendments and supplements in the economic mechanism are based on objective domestic and international conditions governing the development of our economy at the present stage. Our country is entering a decisive period in building mature socialism. The international political and economic situation is worsening steadily. Regardless of the negative effect which the energy, raw material and financial crises, the increased prices on the international market and the worsened external conditions for the marketing of our export goods is having on our economy, it must continue to develop at its present stable rate.

The stricter requirements governing domestic economic problems in connection with the conversion of the national economy to an intensive base and the worsened external conditions presume the use of the management mechanism in ensuring a real confrontation between domestic production and the conditions, trends and characteristics of foreign markets and the acceleration of the process of dynamic consideration and adaptation of the production process to such circumstances, trends and characteristics. The increased effectiveness of foreign economic relations and the enhancement of their role in the development of the socialist economy can be achieved only on the basis of such a purely economic basis.

Let us immediately emphasize that the amendments and supplements in the economic mechanism do not affect its basic and essential stipulations and concepts, the accuracy of which was confirmed by past experience. It is a question of amendments, supplements and improvements in the means and methods and, essentially, the tools used in observing the basic principles of the economic mechanism in accordance with contemporary conditions and stricter requirements.

The main purpose of the current improvements in the economic mechanism is to create the necessary prerequisites for the fullest possible, qualitative and comprehensive implementation of the economic tasks set by the 12th BCP Congress. That is why the problem today is reduced essentially to the detailed study of the main trends for improving the economic mechanism and their application in daily practical work.

Enhancing the Role of Production Enterprises Is the Basic Trend in Improving the Economic Mechanism

In accordance with Comrade Todor Zhivkov's stipulation of the owner and manager of socialist property, the amendments and supplements in the economic mechanism stipulate that the enterprises will become the basic economic-organizational and economic unit within the national economy, operating on the basis of total cost accounting and possessing the necessary legal rights. In this way the enterprise--the direct production unit--becomes the main component in the organizational structure of the economy.

As Comrade Todor Zhivkov indicated at the January 1984 BCP Central Committee Plenum, under the new conditions relations between enterprises and the state will be established on an economic basis. In response to the production and financial resources granted by the state, the enterprises must achieve and restore for the state specific end mandatory results. Eventual better or worse economic results, compared to those planned by the state will be at the expense of the enterprises.

The purpose of all of this is to relieve the economic enterprises from petty daily supervision and paralysis and to offer them opportunities for developing economic initiative. It is only thus that the labor collectives will be able fully to exercise their rights as true managers.

The superior economic structure will be based on the rights and requirements of the production enterprises. Combines, economic trusts, corporations and

others will be associations of labor collectives at enterprises engaged in resolving common problems which cannot be resolved efficiently by individual enterprises. At the same time, the enterprises are offered extensive possibilities of entering into and participating in various forms of associations—companies, associations, economic unions, etc.

Starting with 1 January 1984 the production enterprises will be responsible not only for their output but for marketing it on the domestic and foreign markets.

Currently foreign trade activities are carried out through a variety of organizational forms, such as economic organizations with their own foreign trade units, foreign trade enterprises under the jurisdiction of economic organizations, foreign trade societies and companies, and autonomous foreign trade enterprises. Regardless of the differences existing among these forms, the problem of the direct confrontation between national production and the international market and the reaching of this market by producing plants was not resolved satisfactorily. In the sense of the amendments made in the economic mechanism, foreign trade becomes a direct production activity within the framework of the overall reproduction process. This circumstance calls for a thorough consideration of the present forms of organization of foreign trade with a view to coordinating them with the new stipulations of the economic mechanism.

Two essential methods of foreign trade activities have been established in worldwide practice:

First, when the producer is also the merchant and carries out foreign trade activities alone, through his own bureaus, companies or offices or through associations established with other related producers for joint foreign trade activities. This also includes hiring specific companies operating on the international market on his behalf and on the basis of his instruction and accounts, paid on a commission basis.

Second, when the producer sells his goods to a commercial firm which markets it internationally in its own name and at its own account.

The economic mechanism accepted in our country gives priority to the first form: the producer is also the merchant without, naturally, excluding in some cases the use of the second method. This legitimately raises the question of how will the production enterprise organize its foreign trade activities.

The following several basic conditions should be observed and considered in resolving this complex problem:

First, no one has the right to deprive or restrict the rights of production enterprises relative to foreign trade activities, granted to them in accordance with the law on the economic mechanism.

Second, production enterprises may carry out their foreign trade through a variety of forms: a foreign trade organization engaged in foreign trade

activities on their account on a commission basis; the foreign trade enterprise of the economic organization in whose offices they maintain their own specialists; the foreign trade enterprise of the economic organization or of any other foreign trade organization in which they keep an office; the foreign trade company of which they are members; and a foreign trade association with other enterprises and economic organizations;

Third, the enterprises may use one or several forms of foreign trade as stipulated in the law, based on the characteristics of their export and import activities.

Fourth, all state and economic bodies and organizations must assist the production enterprises in developing the most efficient organization and conduct of foreign trade activities.

Regardless of the form of organization of the foreign trade, the foreign exchange and financial results of exports and imports are directly and entirely reflected in the results of the overall economic activities of production enterprises, rather than through the trusts, as has been the case so far. This ensures the establishment of truly active ties between the enterprises and foreign market requirements.

The rights granted to production enterprises to engage in foreign economic activities, however, in no case mean that all production enterprises can themselves go to the international market to sell their goods: this would lower the prices of commodities and the country's effect of foreign trade activities. The contemporary situation on the international market demands that in the future also, in organizing foreign trade activities we must take into consideration their concentration, i.e., the producers must present themselves on the foreign market on an organized basis through the creation of associations consisting of companies and other forms of association. To this effect, the Ministry of Foreign Trade and the State Committee for Planning have the right to limit by sector and depending on volumes of foreign trade activities the right of enterprises independently to develop their foreign trade units or to engage in foreign trade through economic organizations of which they are a part. The form of foreign trade used by the individual enterprises will be coordinated with the Ministry of Foreign Trade and the sectorial ministries.

Obviously, in the application of this principle we must revise the internal structure of the current foreign trade units such as NPT [Scientific Production and Trade Trusts], the PTO [Production and Trade Trusts] and companies. Their form must be retained but this must not deprive the large plants which are now part of their system of the right to engage in foreign trade; they must have their own representatives or units, offices, firms, managements, etc.

The right of production enterprises to market their goods does not mean to allow competition among enterprises on the international market. The same type commodity cannot be sold by two or more foreign trade organizations or units. If necessary, such problems will be considered jointly and the

permission of the Ministry of Foreign Trade will be sought. Allowing our organizations to compete on foreign markets will create marking difficulties and is in the interest neither of the country nor the production collectives.

At this point we should also pay attention to the problem of services, engineering services in particular. Currently complete projects are being offered within the same sector by several enterprises. Obviously, this may be retained in the future as well but must be strictly regulated so that only one Bulgarian organization is represented in a given market.

This could be accomplished on the basis of a competition within the country or by a division of markets which, if impossible to achieve on the enterprise level, will be regulated by the Ministry of Foreign Trade. Preference will be given to organizations which have proved in practice their ability to carry out efficient and competitive projects.

The establishment of the internal organizational structure of foreign trade organizations and, particularly, companies and associations, should be based on taking into consideration the interests and views of the production enterprises. They must actively participate in the choice of the method (firm, office or directorate), to determine the size of the staff and assignment of obligations among it, personal selection, etc. The internal structural units of foreign trade companies and associations and their staffs must be directly involved with export and import plans of production enterprises and their results. This is the only basis on which the income of such units must be earned and the wages of their staffs determined.

We must increasingly apply wage and income differentiation based on the quality and quantity of invested labor.

Trade firms, directorates and offices of the various production enterprises will be serviced by joint functional units (planning, financial, accounting, price, marketing, legal, transportation, etc.) and the common management of companies and associations. The income and wages of the management and the general functional units must be based on the results achieved from export and imports of all the enterprises they service. Such interrelationships significantly enhance the role and significance of internal cost accounting.

The managements of foreign trade companies and associations will bear particular responsibility for their proper functioning. Such managements, which have been elected by the collective management organs, must also act as the representatives of the socialist state. They must coordinate, control and direct through the functional units the activities of commercial firms, directorates and offices in accordance with the interests of the socialist society and the efficient marketing of the goods produced by the enterprises and economic organizations.

The main concern of the managements of foreign trade companies and associations must be to establish the closest possible ties--orientational, cadre, economic, etc.--between commercial firms, directorates and offices and

The production enterprises and the economic organizations must be supplied with sufficient, prompt, systematic and specific foreign trade data which will enable them in drafting their counterplans to take maximally into account the requirements of foreign markets; in the course of carrying out their economic activities, to make proper decisions on prices at which they sell their products on the international markets and to take the necessary steps to enhance the efficiency of overall economic activities.

The foreign trade information required by enterprises and economic organizations must discover quantitative and qualitative characteristics of international markets, such as the condition of the output, consumption, supply and demand and developing opportunities for the marketing of our goods; characteristics of the condition and development of commodity markets in socialist, developing and developed capitalist countries; requirements of the international market in terms of variety and quality, packaging, servicing, advertising, etc.

In accordance with the course of comprehensive intensification of the national economy, particular attention should be paid to the information which reflects the requirements of international markets in terms of the quality of export goods. Minimal requirements in this respect include the following:

- a. Forecasts and market and other studies to be used as a basis for technical and economic assignments on the technical standards and quality parameters of export goods;
- b. Information used in setting parameters of standards which must be met for the most important indicators of the items;
- c. Information which will help drastically to reduce and eliminate the subjective factor in production certification and will make it possible to apply the high global criteria and, particularly, the criteria of producers in countries with which we are competing and of consumers in countries in which Bulgarian goods are sold;
- d. Periodical information on the quality of export goods and comparisons with the quality of similar products produced by the competition and with consumer requirements;
- e. Supplying the economic organization and enterprises with systematic information on the quality and technical standards of our export goods and on steps taken by the competition in this area;
- f. Systematic analysis of data on claims, used as a base for the liability of culprits and for suggesting measures to eliminate systematic and unjustified quality claims and omissions.

It is particularly important to change the nature of foreign trade information and to make it more purposeful: above all it must earmark the future development of market conditions and enable producers to make specific decisions on adapting production to such future requirements. As the state

authority, the Ministry of Foreign Trade will direct such activities through its institutes. Essentially, however, the task must be fulfilled by the foreign trade enterprises which must make forecasts on commodities and take most active part in drafting the plan. The Foreign Trade and International Markets Situation Center should organize and methodically guide and provide necessary information on the market situation as a guide to producers in the areas of structure and quality.

Mandatory assignments of state planned tasks to direct producers, including foreign exchange and financial results of the marketing of their output, is a new aspect in planning foreign trade activities. This guarantees planned ties between the direct producer and the foreign market.

State planned export and foreign exchange balance assignments will be approved by the ministries which will assign them to the respective economic organizations and the latter to the production enterprises. The stipulation that the superior organization has the right to change approved plan indicators of its subunits only downwards, thus meeting the requirement of not appropriating reserves developed by labor collectives through their counterplans, is of great importance.

The foreign trade organization is an economic organization performing specific activities. It will have the following mandatory plan indicators:

Physical export volumes based on international contracts, agreements, etc.;

Physical volumes of imports from both directions;

Foreign exchange income from reexports and other specific foreign trade operations.

The export and import plan of the foreign trade organizations will be essentially formulated in physical terms and value by the economic organizations. The combined plan of the foreign trade organization, based on the suggestion of the respective sectorial ministry, must be approved by the interdepartmental export and import coordination council of the Ministry of Foreign Trade.

The amendments and supplements in the economic mechanism stipulate the foreign exchange self-support of economic organizations and enterprises. In this connection, regulations governing the foreign exchange resources of the country become more flexible.

The following indicators will be issued to economic organizations and enterprises in foreign trade activities:

Foreign exchange income from socialist countries, including the USSR and the nonsocialist countries;

Foreign exchange balance for nonsocialist countries;

Foreign exchange ceilings for imports from socialist countries.

Enterprises and economic organizations without enterprises must mandatorily secure the foreign exchange income included in the plan and stipulated in the foreign exchange balance. If the stipulated foreign exchange income is not earned, the foreign exchange balance will be secured by lowering foreign exchange outlays and available Foreign Exchange Fund assets. Limiting foreign exchange outlays does not relieve the enterprise or economic organization from the implementation of contractual obligations. Nonfulfillment of foreign exchange income and balance for the current year increases the following year's plan.

The elimination of the stipulation according to which imports from the first direction must be minimal is a new feature. Currently the import plan from the first direction may be exceeded but only if additional export resources are available and with the agreement of the Ministry of Foreign Trade.

The laws governing the economic mechanism increased incentive for export activities and import economy. We know that some of the additional material and manpower expenditures related to the production and procurement of commodities for export to nonsocialist countries, a practice which will be extended, are covered by the Ministry of Foreign Trade from the Export Encouragement Fund. Furthermore, conditions are created for awarding bonuses for exports of highly effective commodities. More funds will be made available in leva and foreign currency for extensive servicing and advertising activities related to our goods abroad.

Greater foreign exchange incentives will be provided for production enterprises. They will set up their own foreign exchange funds with amounts at their disposal. Providing that they meet their stipulated foreign exchange balance, the enterprises will be given an incentive in foreign exchange of 1 percent of the volume of current foreign exchange income, 30 percent of which will be left at the disposal of the enterprises themselves. They will also be granted 70 percent of the foreign exchange income earned over and above the stipulated state plan.

New regulations apply to incentives and penalties in leva relative to the implementation of foreign exchange assignments. An enterprise or economic organization without enterprises which grants to the state some of its due foreign exchange from the Foreign Exchange Fund will receive a bonus of 1 leva per each foreign exchange leva paid to the budget. If the foreign exchange balance from the second direction is not achieved, the economic organizations will pay fines to the budget of 0.10 leva per each foreign exchange leva lost due to nonfulfillment.

Expedient changes have been made in the regulation governing the formation of the Service Activities Fund. If the legally allocated funds prove to be insufficient, the enterprises or economic organizations without enterprises must secure additional funds for such activities. It is forbidden to divert for such purposes assets appropriated for other purposes, including for the payment of claims, or the appropriation, freezing and centralizing of funds. The economic organizations can transfer assets from this fund to other economic organizations to which they have assigned servicing activities on a

contractual basis. This means that such assets may be put at the disposal of the foreign trade organization assigned to engage in such activities.

It is thus that the planned regulation of the country's foreign exchange resources is improved essentially through economic means, such as the fulfillment of our intergovernmental agreements and contracts; maintaining the country's steadily positive foreign exchange balance; expanding foreign trade further, particularly with the socialist countries; assigning foreign economic relations a more active role in the development of the socialist society. All of this increases the responsibility of foreign trade workers for the successful implementation of planned foreign exchange assignments of economic organizations and enterprises.

[No 6 1984 pp 2-7]

[Text] Increasing the Responsibility of Producers and Exporters for the Quality of Export Goods

At the January 1984 BCP Central Committee Plenum, Comrade Todor Zhivkov indicated new quality criteria, such as comparing our goods with the qualities of similar items produced and sold by our strongest competitors on the world market; the price of our commodity accepted at the respective market, compared to the price obtained by our competitor for the same item. This means that the main thing is to make goods produced in our country competitive on the foreign market in all areas: technical parameters, consumer value, design, packaging and servicing.

These are the only objectively set criteria, for at the present stage production quality is increasingly becoming the main element in the competitive ability of the commodities and the basic means in the so-called nonprice competition, which today determines the development and efficiency of foreign trade to the greatest extent.

The comprehensive assessment and status of the competitiveness of our goods are expressed, in the final account, through the prices at which they are sold on the international market.

We must acknowledge that this approach is largely built in in the amendments and supplements to the economic mechanism. It stipulates increased responsibility, incentives and penalties relative to upgrading the quality and all management levels and through all possible administrative and economic measures.

Above all, the role of the sectorial ministries is enhanced in decisively improving production quality.

Also enhanced are the responsibilities of leading cadres and specialists in enterprises and economic organizations regarding production quality.

It has been stipulated that no planned volumes will be set for raw and other materials used in the production of goods with substandard indicators.

Particular attention has been paid to quality control personnel: their individual wages will be based on the quality of output and claims filed; their management cadres will be appointed by the higher management.

Individual and collective penalties will be imposed on the respective units and officials who have allowed the production of substandard goods, defaults, price discounts, and the payment of damages and losses from just claims relative to production quality.

We know that among the variety of factors which determine the quality of output the use of scientific and technical progress plays a central part. That is why the amendments and supplements of the economic mechanism enhance the responsibility of economic ministries, enterprises and organizations for the application of scientific and technical achievements pertaining to production quality.

The amendments and supplements stipulate a greater correlation of prices with production quality and wages with meeting quality indicators of economic activities.

Quality problems are manifested particularly tangibly in foreign trade activities, for the quality of exported goods is the basic factor ensuring their efficient marketing. However, we must bear in mind that in terms of the efficiency of overall foreign trade activities, in addition to the quality of export goods the quality of the labor invested in their manufacturing is of great importance.

In connection with the new requirements of the economic mechanism, the Ministry of Foreign Trade should provide methodical guidance in activities relative to the quality of export goods within the foreign trade system, such as maintaining systematic relations and engaging in joint work with state control organs, such as the State Committee for Science and Technical Progress, the Committee for State and People's Control, etc., as well as with the engineering-application and economic and foreign trade organizations.

With properly drafted standards and concluded foreign trade contracts, which determine fully and entirely the technical standards and requirements governing the quality of export goods, proper quality can be achieved mainly as a result of coordinated and jointly organized control by economic and foreign trade organizations, sectorial ministries and the Ministry of Foreign Trade in the course of the development, application and production of the various items.

As Comrade Todor Zhivkov pointed out at the National Conference on Quality, which was held in Varna in May 1983, the producer plays the main part in terms of quality and bears the main responsibility for it. In accordance with the new requirements of the economic mechanism, producer control must be efficient and subjectivism and the mere recording of facts must be decisively eliminated. The producer's control must cover the entire chain of the reproduction process and be essentially preventive.

In our view, the economic organizations and enterprises must significantly intensify their control at three main points of the production process: "input" control on cooperatively produced items, materials and raw materials; control for the precise observance of technology in the production process; and control of the finished items prior to shipping them out.

Considerable improvements must be made in the control functions of foreign trade organizations. In this connection we should discuss the question of setting up an apparatus of receivers in some foreign trade organizations, paid by the latter. Naturally, the organization of such a system should be adapted to the specific characteristics of the commodities and forms of organization of foreign trade.

The following rules should be applied: goods which have been stopped by the foreign trade organization control authorities should not be produced any longer or shipped out.

State control of export quality by the Ministry of Foreign Trade should be practical and pertain to specific commodities, enterprises and countries. In this connection use could be made of the organization and possibilities of the Bulgarkontrola SO [Economic Trust] which would be in charge of specific governmental control as assigned by the Ministry of Foreign Trade and paid for by the investigated enterprises. A similar step should be taken in the case of repeated omissions and the creation of dangerous precedents. The goods blocked by the Bulgarkontrola SO should not be shipped out on the basis of administrative orders.

It is particularly necessary to emphasize that this applies to partial measures which in no case would affect the nature of the Bulgarkontrola SO as an international monitoring station. The implementation of such steps, however, will enable us to make more efficient and purposeful use of existing material and technical facilities and skilled personnel in the nationwide struggle for production quality in which both we and our foreign partners are interested.

The practical implementation of the new stipulations of the economic mechanism in terms of quality must be reflected in improving the efficiency of exports and overall foreign trade activities. This process, however, must be steadily monitored, observed and studied by all state and economic organs managing production and export activities.

Let us frankly say that so far the managements of the economic organizations and enterprises do not regularly observe and systematically analyze the basic export efficiency indicators. They are showing insufficient interest in carrying out steps to reduce production costs of export commodities.

Obviously, the efforts to improve the efficiency of foreign trade are most closely related to the work of foreign trade organizations in the study and forecasting of the situation on international markets, the quality parameters of the items and the structure and production cost of export commodities. The unity of these factors which become the base of economic activities in exports may result in a favorable development of the trends of import and

export prices and make our participation in the international division of labor more efficient.

A method for computing the efficiency of foreign trade has been approved. Clearly, reporting and analyzing the results of enterprise work in this area and taking adequate measures must become the main concern of all foreign trade units.

Particular attention should be paid to the export profitability indicator. We know that Comrade Todor Zhivkov emphasized the need to apply this indicator in our economic practice as early as the December 1982 BCP Central Committee Plenum. The importance of the export profitability indicator is defined by the fact that it helps to compare the two basic elements of economic activities of enterprises, related to the results of commodity marketing on the international market--production cost and the equivalent of foreign trade marketing in leva. This enables us to see simply and clearly the results of production and export activities, reflecting the basic economic interests of economic organizations and enterprises with the current economic mechanism.

This year the export profitability indicator is not mandatory. However, it is entirely obvious that the enterprises must be prepared to use this indicator without delay in assessing the results of their foreign trade efforts. In this connection, and with a view to stimulating the implementation of steps to lower production costs, the Ministry of Foreign Trade and the Ministry of Finance must draft this very year norms regulating minimal export profitability and incentives for its improvement.

Some Specific Problems of Foreign Trade Activities

Beause of the characteristic features of our economy and in accordance with the BCP economic policy, in the future as well the country's foreign trade will continue to develop at a faster pace compared to the growth rates of the national income and industrial output. Goods produced by the machine building, electronic and electrical engineering industries (lifting machines, automation facilities, industrial robots, etc.) and the items produced by the chemical and light and food industries will continue to have priority. We shall expand the scale of engineering services and improve foreign trade methods. Integration processes with the socialist countries will be developed more extensively and our participation in international industrial cooperation will be expanded.

The open nature of our economy will impose increasingly new requirements concerning foreign trade activities, aimed at intensifying their influence on national production intensification.

Unquestionably, the rights which the economic mechanism grants producing economic organizations and enterprises in the field of foreign trade will constitute a powerful incentive for increasing our participation in the international division of labor. At the same time, however, let us emphasize that foreign trade is a very specific economic activity which formulates strict requirements and criteria concerning cadres working in this area.

The economic organizations and enterprises have been granted the right to make basic decisions relative to exports and imports, in accordance with the laws governing the economic mechanism. This particularly increases the requirements of such decisions consistent with the interests of the collectives and the commitments assumed by the state and the interests of and tasks set by the owner—the socialist state. It is entirely clear that the owner would not and naturally will not allow any amateurish attitude toward professional problems in this exceptionally important and responsible economic sector. The consideration and resolution of all problems arising in relation with the country's foreign economic relations must take place with a mandatory feeling of high responsibility and impeccable professionalism.

The current situation on the international markets calls for problems of organization and implementation of foreign trade activities to be centralized in the managements of economic organizations and enterprises. The basic decisions on such problems should be systematically passed on the production collectives and very strict requirements must be set for individuals engaging in foreign trade activities. The location of such individuals (job or territory) within the economic organizations and enterprises or in the various foreign trade activities is not the most essential problem. What is essential is that these are foreign trade cadres to which all universally valid requirements and principles fully apply. These must be politically loyal, mature and dedicated cadres, with professional training and proven business qualities and language capabilities. A concern for training such cadres is above all the concern of the managers of economic organizations and enterprises. The selection, appointment, promotion or dismissal of managers and specialists in foreign trade units of enterprises and economic organizations must be coordinated with the Ministry of Foreign Trade with a view to maintaining a unified cadre policy in the entire foreign trade area.

A new method must be used in selecting and assessing the qualities of foreign trade cadres working abroad—in mixed companies with Bulgarian participation and in technical and engineering construction. The initiative in the selection and presentation of such cadres should come from the economic organizations and enterprises after discussions with party organs and organizations and foreign trade organizations. Regardless of this, such cadres must take a competitive examination based on indicators and criteria of which economic organizations and enterprises have been informed. Unquestionably, all of these requirements and the entire economic mechanism create favorable conditions for the development of the cadres and for the real manifestation of their possibilities. However, even the most perfect mechanism cannot automatically create good foreign trade workers (businessmen) but is only a prerequisite in this respect.

On the other hand, the increased rights and responsibilities of production enterprises in organizing and performing their foreign trade activities will lead to the hiring of specialists by production enterprises as part of their organizational-managerial and economic apparatus engaged in export and import activities. Furthermore, it will make it necessary for enterprise managements to engage essentially in foreign trade in addition to production activities. All of this puts in a new light and formulates new requirements

concerning problems of the training, skills and retraining of cadres directly or indirectly related to marketing goods abroad.

Problems of the training and retraining of cadres and increasing the economic and foreign trade knowledge of personnel in this area become a prime assignment of the Ministry of Foreign Trade and, particularly, the economic and foreign trade organizations and enterprises.

Obviously, we must reassess the great many accomplishments in this respect and, in accordance with the new requirements, enhance the quantitative and qualitative criteria relative to the training and retraining of cadres working in the field of foreign economic relations.

The application of the economic approach and its mechanism will inevitably and legitimately enhance the role and significance of contracts as the basic regulator of relations among economic organizations which produce goods for export and purchasers of export commodities and foreign trade organizations.

The problem of discipline in foreign trade relations assumes major importance. In addition to matters of quality and efficiency, which were already discussed, the need for dynamic and efficient contractual relations between producing enterprises and their foreign trade units appears with new strength and in a new light.

The foreign trade contract must govern the relations and obligations of the parties in terms of the quantity and quality of goods, delivery times, penalties, etc.

Regardless of the organizational variety of methods in conducting economic and foreign trade activities, the contract remains the basic method in settling relations between organizations and enterprises in the country, relative to exports and imports.

The economic mechanism regulation expressly stipulates several specific methods for establishing contractual relations in imports and exports. Thus, whereas the economic organization engages in imports and exports through a specialized unit in its management or a foreign trade enterprise subordinate to it, import and export contractual relations between them and their other branches and enterprises are settled in accordance with concluded economic contracts or in any other way stipulated in the regulations on internal cost accounting. Although no express mention of a contract is made in this case, the decision of the collective authority may be a written act stipulating contractual relations between the specific importer and exporter and his internal assigner. The decision must contain all or part of the conditions governing exports or imports, such as the type of commodity, price, quantity, quality characteristics, delivery deadlines, method of payment, guarantees, procedure for settling claims and arguments, etc.

The use of either method of contractual relations will depend in practice on the legal status of the respective branch or enterprise, i.e., on whether or not it is a juridical person. Usually, contracts are concluded between

juridical persons on a commission basis or on their own behalf. If one of the parties is not a juridical person it must conclude the contract on behalf of the economic organization and the assumption of the obligation will depend on the type of contract, whether it is based on a commission deal or is at the expense of the exporter.

Such contracting methods may be applied in the case of specific organizational forms of economic and foreign trade activities such as the TPO [Trade Production Trust], PTO [Production-Trade Trust] and NPTO [Scientific Production Trade Trust].

If foreign trade activities are carried out with the help of a foreign trade association involving the respective organizations, their export and import interrelationship is settled in accordance with the internal procurement contract signed between the foreign trade association and the respective organization or enterprise and in accordance with the stipulations of the contract on the basis of which the association has been organized.

In the other organizational methods of foreign trade activities, export and import relations are carried out with the help of contracts concluded between foreign trade organizations and production enterprises.

Import and export activities conducted through a foreign trade association mandatorily presume the establishment of contractual relations between the association and its members or other assigners for each import and export shipment.

The proper drafting and concluding of contracts must meet the requirements of strict contractual discipline.

The price at which we sell our commodities and purchase goods we need synthesizes all activities in the area of foreign trade. Basically, the price is related to the quality of the goods, the structure and technical standards of the items, etc. However, it also reflects the activities of the subjective factor on all levels in foreign trade. The ability to trade, to study market situations, forecast their development and engage in trade discussions and the proper organization and activeness of the distribution and servicing apparatus largely determine the gain of a market and the setting of favorable export and import prices.

Setting the prices on which export commodities will be sold is the sacred right of the producers, granted to them by the law. However, it must be understood that this involves not only rights but, above all and mainly obligations.

Bearing in mind the steadily growing difficulties in marketing commodities on international markets, it is very important for the prices to reflect the quality and technical parameters of our items and the market conditions under which they will be offered. This presumes the systematic and profound study and knowledge of the conditions, development trends and features of the respective commodity markets.

In addition to being consistent with conditions on international markets, prices must be economically advantageous to the producers, for it is on the basis of the prices that they achieve their economic results. In this respect serious attention should be paid to and a systematic study made of the structure of the cost elements and their dynamics. In the final account, the decision as to the volume and sale prices of export commodities is a complex combination of economic interests and marketing possibilities.

In this respect total unanimity must exist between producers and exporters. It is of great importance to intensify the incentive offered foreign trade workers in selling at better prices, as stipulated in the legal regulations.

It is particularly essential to set and maintain realistic export prices. Unjustifiably low or excessive prices entail adverse consequences of the collectives of the economic organizations and enterprises and the state. In the first case this results in losses. In the second, markets are lost because of noncompetitiveness, which could disturb the production process. It is entirely proper to broaden the practice of direct participation of senior managers of economic organizations and production enterprises in talks held with foreign partners particularly in the export of machines and equipment. This creates the possibility of operatively coordinating prices with other delivery stipulations. However, this must be accomplished on an organized basis and in accordance with the stipulated procedure, for in the opposite case the consequences for the country may be undesirable.

We must be aware of the fact that in price discussions with foreign companies maintaining strict order and discipline is exceptionally important.

The regulations make it possible for relations between producers and their foreign trade organizations to be set on an economic basis with strengthened reciprocal economic interest and responsibilities. That is why it is stipulated that for such activities foreign trade organizations will earn commissions for imports and exports. The size of the commissions by commodity, group of commodity and direction will be based on regulations issued by the Ministry of Finance and the Ministry of Foreign Trade. If deemed economically expedient, the size of the commission may be agreed upon between producers and exporters.

In current practices two basic differences exist relative to commissions. Some economic organizations complain of the high and economically unsubstantiated commission amounts. In other cases the foreign trade organizations are displeased by the fact that the size of the commission does not always cover real expenditures in marketing the goods. That is why practical activities must be reviewed and substantiated decisions made.

The commission rates, stipulated or agreed upon, must be realistic. They must reflect the quantity and quality of the efforts of the foreign trade organizations in marketing the goods and the actual results benefitting the economic organizations and enterprises. In no case should commissions present opportunities for economically unsubstantiated foreign trade organization income.

If foreign trade activities are carried out directly by the structural units of the economic organization, their costs are based on internal cost-accounting regulations. In such cases as well, however, we must not underestimate incentives given to foreign trade workers based on the amount of work done and its quality and results.

Wages are the specific manifestation of the method used in establishing the cost of maintaining and the income earned by foreign trade organizations. In this respect the regulations include some new stipulations.

In order to ensure an economically substantiated ratio between the growth of wages and labor productivity, the growth of the average gross wage compared to the preceding year will be determined on the basis of the new scale which will allow wages to grow at a slower pace compared to labor productivity and within admissible limits stipulated in advance.

The wages of management cadres and specialists in the units, offices and directorates engaged in foreign trade activities will be directly tied to the results of the foreign trade activities of the economic organizations and enterprises which set them up.

As we can see, Comrade Todor Zhivkov's concept of the owner and the manager of socialist property, embodied in the amendments and supplements to the economic mechanism is fully manifested in the specific economic area of foreign trade. The enhancement of the role and expansion of the rights of economic organizations and enterprises and their presentation on foreign markets, thus exposing our domestic production to international trends and requirements, will inevitably have a positive influence on socialist economic intensification.

The Ministry of Foreign Trade will actively promote the full application of the stipulations and requirements in the amendments and supplements of the economic mechanism and will not allow the rights of foreign trade enterprises and organizations to be reduced or deformed as a result of decisions made by other bodies. We shall encourage most directly the assertion of the new organizational methods for conducting foreign trade activities as stipulated in the economic mechanism by taking into consideration and observing their demographic principle--the choice of the method to be left to the economic organizations and enterprises. We have earmarked a number of steps to strengthen the study, information and forecasting activities of the ministry and the foreign trade organizations with a view to significantly increasing the quantity and, particularly, improving the quality of the foreign trade information made available to the producers. Steps are also being taken significantly to energize the technical and engineering, distribution and servicing apparatus working abroad.

At the same time, it must be made clear that the owner--the socialist state--has defined and assigned to the Ministry of Foreign Trade an important functional right: to exercise state foreign trade monopoly. The Law on Foreign Trade, the regulation on its application and the regulation on the economic mechanism, including its supplements and amendments, give the ministry sufficient rights to defend and protect the interests of the owner under present

circumstances as well. Particular attention will be paid to prevent its control and aid to economic and foreign trade organizations and enterprises in carrying out their plans for export, balancing foreign exchange payments and revenue, fulfilling the obligations of the state toward other countries and strictly observing discipline in foreign trade activities. In no way or circumstance will any competition among our economic and foreign trade organizations on foreign markets be allowed.

The economic organizations and enterprises will be asked to take energetic steps to improve the quality and technical standards of exported goods in accordance with the requirements of the international markets. The right to block exports of substandard or inefficient commodities will be exercised.

Under the new conditions, the ministry will intensify its coordinating and guiding role in directing exports and imports toward the most promising and economically profitable markets in the socialist, developing and developed capitalist countries. The technical and engineering associations will intensify their control over the activities of firms operating abroad with Bulgarian participation and their distribution apparatus and service bureaus.

Regardless of the departmental affiliation or the various methods for engaging in foreign trade activities, the selection, appointment, promotion and training of foreign trade cadres in accordance with the regulations will take place under the direct guidance, control, coordination and appointments by leading cadres in the Ministry of Foreign Trade.

The ministry's leadership hopes that the stricter requirements of the economic mechanism concerning our work will be welcomed with the necessary attention and feeling of responsibility by the aktiv of the economic units--producers and exporters of our export commodities--which will be a guarantee for the further expansion of foreign economic activities and upgrading their efficiency in accordance with the resolutions of the 12th BCP Congress.

5003

CSO: 2200/165

PREPARATIONS, PROBLEMS OF STRATEGIC PLANNING TO YEAR 2000

Prague HOSPODARSKÉ NOVINY in Czech 1 Jun 84 pp 8-9

[Article by Engineers Michal Spak and Jan Voboril, science candidates, Office of the Federal Government's Presidium: "On Preparing the Long-Range Outlook of the Czechoslovak Economy's Development. A Step to the Year 2000"]

[Text] Elaboration of a long-range strategy for Czechoslovakia's social and economic development under the conditions of peaceful work belongs among the timely problems that are of professional as well as political importance. It involves solving the basic directions of development in terms of growth rate, equilibrium and proportions, and especially ensuring the processes of intensification and of raising the national economy's efficiency, primarily by accelerating the progress in science and technology within the productive sphere and by increasing our participation in the international division of labor. Work on clarifying our prospects through 1995 is now at its peak. It will be useful to dwell on some of the questions that are the subjects of deliberation in the decision-making sphere and in the area of scientific research.

Solution of our long-range outlook's current strategy starts out from the realization that strengthening national economic planning's long-term nature, by basing our five-year and annual national economic plans on a longer-range program of socioeconomic development, is an important and necessary direction in perfecting national economic planning.

There are a number of reasons why the need for longer-range planning considerations and objectives is especially timely in the present stage of building a developed socialist society under our conditions. Primary among them is the accelerating pace of the progress in science and technology, the source of profound changes in society's needs and the way they are satisfied. Which means that there is a greater variety of the specific paths along which the economy can develop. Another important reason—taking into consideration also the high costs of research and development—is the need to increase the degree of our economy's effective participation in the international division of labor, primarily within the framework of socialist economic integration, and to

proceed purposefully in utilizing natural resources, raw and processed materials, and manpower. To this end we must develop the national economy's optimal structure so that it will help reduce the material-, energy- and capital-intensity.

Long-term socioeconomic development should be based on the characteristics in the development of the socialist way of life and of socialist society, so that it will tend toward effectively fulfilling the basic objective of CPCZ policy: the maintenance and improvement of our people's living standard. The fact that most of our real and systems problems at present are of a long-term nature, and therefore they cannot be solved thoroughly merely on the basis of a short-term approach, likewise underscores the timeliness of the work on the long-range outlook.

We know that the conditions of development will not remain the same throughout the entire decade. In ensuring sustained higher growth rates, which on average should be substantially higher than under the current five-year plan, we can expect to be able to mobilize within the foreseeable future the substantial reserves that accumulated in our economy during the period of extensive development. In addition to this factor, also research and development, efficient structural changes and, last but not least, the contemplated changes in the system of planned management should be "contributing" more under the next five-year plan. From this point of view, it is realistic to expect faster economic growth in the 1990's.

International Comparisons Necessary

Comparisons of the Czechoslovak economy with the world indicate to date that we belong among the developed countries in terms of our attained economic level and basic characteristics. But comparisons with the world's most advanced economies, especially comparisons of a longer-term nature if need be, show that energy consumption per unit of gross domestic product, for example, is higher by more than 50 percent in Czechoslovakia than in some of the comparable countries. Similarly, our specific steel consumption is practically double. On the other hand, the level of labor productivity in Czechoslovakia is only 60 to 80 percent of the labor productivity in these countries.

Longer-term comparisons indicate a decline of our share of total world export (from 1.2 percent in 1970 to 0.9 percent in 1982), and of the world export of machinery (from 2.1 percent in 1970 to 1.4 percent in 1982). Even though product comparisons show that some of our products are equal to foreign products in their energy- and material-intensity, the macroeconomic analyses nonetheless indicate that the requirements to utilize the energy and material inputs more efficiently are highly justified.

So far as the future development is concerned, there are not enough reliable data for international comparisons. The forecasts that are available often differ significantly.

Rough comparisons of the rates of economic growth expected in the socialist and in the developed capitalist countries for the remainder of the 1980's (according to some of the published forecasts) indicate that in Czechoslovakia the

growth rate of national income must be at a level of 3 to 4 percent a year if we are to attain a desirable lead over the developed capitalist countries and contribute commensurately toward socialist society's economic development. Faster rates of economic growth in Czechoslovakia in the 1990's, as compared with the current five-year plan, are necessary for a number of domestic reasons, but their urgency is evident from international comparisons as well. As the 1983 results and the possibilities of stepping up this year's plan indicate, the prerequisites for attaining such growth rates in Czechoslovakia are realistic.

In international comparisons, the demanding nature of the necessary objectives and tasks of economic development manifests itself not only in the aggregate indicators of economic growth, but very specifically also in comparisons of economic development's characteristics, of the technical and economic indicators, etc. Therefore it is essential that the method of international comparisons permeate the process of the long-range economic outlook's elaboration, at every level of management and in every link that participates in elaborating this outlook.

Macroeconomic Questions in Forefront of Attention

Ensuring the intensification of the entire replacement process is the common denominator of all macroeconomic questions (but not solely of the macroeconomic ones). The point here is not only how to approach the formation of resources and the ensuring of faster growth, but--no less importantly--also to place emphasis on the efficiency of development and of using the produced resources. In other words, we do not want growth at all cost, and especially not the growth of resources that is not reflected in their final use. It is common knowledge that in this context we are not considering merely theoretical schemes.

Structural development is one of the key questions of our economic outlook. This is a branch (sectoral), product, and cross-sectional problem, but a macroeconomic one as well. What we must give preference to long term, what to cut back, and what to maintain at a certain level, is not only a professional and technical question. It is a political and, in a certain sense, a social one as well. Therefore the decisions in this field are not easy ones, and in every case the long-term considerations must be taken into account. Up to now we have been able to master this entire process from the viewpoint of development, but evaluation is somewhat more complex regarding production outbacks. Here the policy of cutting back production must not be confused with scrapping obsolete fixed assets or with certain organizational changes.

In his article "Economic Outlook Substantiated by Facts" (HOSPODARSKE NOVINY, No 13, 1984), Professor Frantisek Brabec wrote that Czechoslovak engineering was essentially universal in its nature. If this is true, then the timely solutions regarding the structure of development must include also changes in the sectoral and product structures. In manufacturing, understandably, every decision is closely linked with the development of the international division of labor and with the resulting rise of efficiency. Therefore the productive sphere must be directed further toward intensifying our relations in international cooperation, purposefully narrowing our product mix, and improving our terms of trade.

The overall macroeconomic expression of the predominantly extensive development to date has been the faster rise of the social product and productive consumption than of national income, while the decisive structural changes have been closely linked with new investment, and less with innovation. A more pronounced turnaround must be ensured in the stage of development after 1985. The basic solutions should include particularly the following:

- A reduction of metallurgy's share within industrial production;
- A reduction (or more efficient utilization) of the inputs of fuel and energy;
- Preferential development of fine chemicals, specialty chemicals, and biotechnological processes;
- Curtailement of the consumption of building materials, and of cement in particular;
- A substantial increase of the share of electronics within engineering's output;
- A pronounced narrowing of engineering's product mix, and adjustment of the structure and technical level to the customers' requirements;
- Solution of the balance between crop production and livestock production;
- Stepped-up development of service industries and Group B [consumer goods] industries.

Structural changes are the concern of every level of management. This is true of planning structural changes, and also of their realization by preferentially developing or cutting back production. The implementation of structural changes requires also the elaboration of new rules and instruments of management.

Research and Development Decisive

The acceleration of research and development, and the assertion of its results in the development objectives and concepts within the productive and nonproductive spheres play a decisive role in the process of the national economy's intensification. The principle that the planning of the progress in science and technology is the axis about which the national economic plan is drafted, and the basis of concentrating our efforts on the decisive tasks and of overcoming the problems of transition from a predominantly extensive to a predominantly intensive type of economic growth, must be fully asserted especially in the long-range outlook. The resolutions of the Czechoslovak Government concerning the drafting of the long-range outlook therefore place special emphasis on these questions; and this is also why the Czechoslovak Academy of Sciences, and the State Commission for Research and Development and Investment Planning are participating intensively in elaborating the R & D cross section of the long-range outlook.

The progress in research and development over a longer period of time can and, under our specific conditions, objectively must serve as the main instrument for efficiently solving the questions of satisfying society's needs, and as the basis of economic development of the intensive type. Our contemplated economic outlook should maximally assert the progress in research and development in the form of lower-order product and technology innovations, and at the same time it should prepare and implement a selective set of important, higher-order innovations. The first of these directions of progress in research and

development should manifest itself relatively soon in the energy-, material- and labor-intensity of the productive sphere's development. The other direction should provide the basis for the productive sphere's gradual restructuring: on the one hand, for its more adequate coordination with our domestic productive resources; and on the other hand, for developing our elective, specialized production structure in the international division of labor.

Within the framework of the long-range outlook, then, the point is primarily to specify the ways in which the progress in research and development can be absorbed through structural changes in the productive sphere, and the possibilities for the necessary acceleration of innovation can be asserted, so as to combine more closely the developments in science and technology with the advantages of the socialist system.

Engineering and the electrotechnical industry have a key role in the process of intensifying the national economy, on the basis of the developments in science and technology and of our closer participation in the international division of labor. From a quantitative viewpoint, because they jointly are the largest branch of our industry. And from a qualitative viewpoint, because they are the principal supplier of machinery and equipment—i.e., of embodied progress in science and technology—for the other branches of the productive sphere and the entire nonproductive sphere, since the major part of our engineering and electrotechnical output is intended for domestic consumption. In the sense of the conclusions adopted by the 10th session of the CPCZ Central Committee, therefore, practically all characteristics of intensive economic development must be reflected, specifically and to the appropriate extent, in the conceptual studies on the further development of engineering and the electrotechnical industry.

As the analyses and international comparisons indicate, engineering and the electrotechnical industry cannot be developed efficiently in their present broad product mix. One result of this broad product mix, for example, is that only a part of the produced products can be said to be competitive on the most demanding foreign markets. Characteristic of our economy's intolerably broad product mix is also the fact that the industrially developed capitalist countries employ roughly 2.5 to 3 times more workers per product type than we do. In our industry, especially the preproduction stages are inadequately developed in this sense.

In a number of production sectors, the R & D workers we employ are fewer by one order of magnitude than in the developed capitalist countries, specifically because our otherwise large R & D potential is spread too thinly. This is true, for example, of the automobile industry, electronics, optics, and electric power generation. Yet, it has been sufficiently demonstrated that the efficiency of production depends to a considerable extent specifically on the preproduction stages. This underscores the need to concentrate our R & D potential on the decisive directions of the developments in science and technology, as outlined at the 8th session of the CPCZ Central Committee.

An important conceptual feature of the development of engineering and the electrotechnical industry must be the basic way toward narrowing the product mix and achieving efficient specialization, which is our increased participation in

the international division of labor, particularly in international specialization and cooperation within CEMA. Another significant feature of the development of engineering and the electrotechnical industry must be the pronounced penetration of electronics into the output of engineering and into the entire national economy. Therefore, it will be necessary to develop the electrotechnical industry's output at a preferential rate, and to increase its share of engineering's total output.

In conjunction with solving the development of industry, it seems expedient to verify the possibilities and prerequisites for the faster growth of the consumer-goods industry that is playing an ever-greater role in our export and includes a number of manufactures that can be developed predominantly on the basis of domestic raw materials.

Ferrous Metallurgy a Key Question

From the viewpoint of the macroeconomic structure, ferrous metallurgy's developmental concept is one of the key questions of intensifying our economic growth. As evident from international comparisons, a reduction of the economy's metal- and energy-intensity, and full assertion of the principle that metallurgical export must be efficient necessitate the following:

- The curtailment of steel production;
- The curtailment of the export of metallurgical products to nonsocialist countries;
- A higher degree of specialization based on R & D of metallurgical products as well as metallurgical technologies;
- For supplying the needs of our national economy, basing the long-range concepts on the possibilities of broadening our participation in the international division of labor.

For we can expect also in the period covered by the long-range outlook that international trade in metallurgical products will grow at a faster rate than their world output. In 1970, about 20 percent of the world output of metallurgical products was traded internationally, and already 26 percent in 1980. By 1990, this proportion evidently will exceed 30 percent. The main reason for this development stems from the economic advantages of specialization. Full assertion of this essential feature in the efficient development of our ferrous metallurgy demands the curtailment of its role as a net exporter to nonsocialist countries. But the question remains whether the present situation might be prolonged, under which balance-of-payments pressure and the more difficult conditions of exporting engineering products combine to encourage overfulfillment of the export of metallurgical materials. Here, at the present terms of trade in the world market, a ton of engineering products must be replaced with 7 to 8 tons of metallurgical products.

Reserves in Productive Consumption

Productive consumption's systematic relative reduction should become an important source of economic growth. Our economy's reserves in this field are known and generally are also recognized. In international comparisons we rank high in the consumption of fuel, energy, steel, cement, plastics and perhaps other

materials (per unit of national income or per capita). This consumption is deeply ingrained, in the structure of our economy and in the technical and economic level of our production as well.

Concerning the future, an effort will be made to maintain the further decline of productive consumption (without depreciation) at the present rate, i.e., at 0.1 percentage point a year. This objective stems from the formulated principles, according to which the more intensive application of the developments in science and technology, the structural changes, and the increased creative activity in production should result only in a moderate absolute rise of fuel and power consumption, and in the stagnation (or decline) of the consumption of metals and other raw and processed materials. In our opinion, the implementation of such a policy could and should ensure at least twice the mentioned reduction. The anticipated faster rate of economic growth likewise should make itself felt favorably in this respect.

This objective also spells out the task that Comrade Gustav Husak formulated at the 16th CPCZ Congress: "To generate more national income with the available material and manpower resources." National income is no longer able to grow on the basis of the even faster growth of productive consumption and social product. Important here is not only the realization of this objective, but the very extent of the qualitative changes as well. The development of productive consumption must be linked more closely with investment policy. Within the overall orientation of investments, the projects for modernization, reconstruction, and the reduction of productive consumption should be the dominant. In some of the developed countries, such investment projects account for as much as four-fifths of total investment. This applies also to the investment projects' orientation on promoting development, and to increasing the share of investments in the nonproductive sphere. We cannot reconcile ourselves to the constant decline of the efficiency of fixed assets, to cost overruns, and to the continuing high volume of investments in progress.

A very serious question in the next decade will be to use the net increase in the population of work age in a way such that there will be a further rise in the social productivity of labor, parallel with the curtailment of resources for productive consumption and investments. After 1985, in comparison with the development to date, manpower will cease to be a limiting factor of development; according to the forecasts of population growth, the net increase of the population of work age will be over 800,000 persons in the 8th and 9th Five-Year Plans.

Efficient use of manpower should start out from a sharp rise of labor productivity; and from a further decline of employment in the primary sector, a possible rise of some extent in manufacturing (depending on the necessary structural changes), in favor of industries and branches that are less material- and energy-intensive, and a substantial increase of employment in the tertiary sector (the development of services does not depend solely on the migration of labor from the other two sectors). Especially the lagging services will have to be upgraded and expanded. A part of the manpower resources of work age will serve as a reserve for shortening the workweek, giving longer vacations, improving the structure of trades and skills, etc.

External Economic Relations an Accelerating Factor

The changeover to intensification fully applies also to the sphere of external economic relations. An expression of this intensification is the level of the Czechoslovak economy's participation in the international division of labor, based on efficient trade. These two aspects of one and the same process must be permanently linked and mutually subordinated to the objective of ensuring overall savings in the expenditure of social labor. In Czechoslovak foreign trade, as we very well know, there still exist in this respect not only favorable aspects of development, but also certain problems whose solution should ensure long term a turnaround and gains in the use of available resources.

A very important aspect of our external economic relations is the ensuring of economic equilibrium. The past few years have demonstrated that our economy is able to cope even with the stricter requirements of foreign markets. Last year, despite marketing difficulties, we were able to fulfill and exceed the planned tasks also in export to nonsocialist countries. We are continuing to pursue successfully our policy of gradually reducing our foreign debt in convertible currencies. Long term we want to fulfill our objective of external economic equilibrium, and at the same time to solve thoroughly and at an accelerated rate the efficiency of our export and the improvement of our terms of trade, which is associated with the processes of innovation and with solving the qualitative aspects of our export items.

The Soviet Union's role in our external economic relations is unique, not only in terms of the structure of our foreign trade, but also from the viewpoint of the need to intensify—and of the efficiency resulting from intensifying—economic integration based on further cooperation and specialization in production and in research and development. In relations with the Soviet Union and the other CMEA countries as well, the division of labor within branches and sectors should become a growth-accelerating factor. In our long-range development, special attention will have to be devoted also to our economic relations with developing countries.

A Target Programming Approach Necessary

Ensuring the changeover to the national economy's intensive development demands that we consistently employ a target programming approach to solving the most important economic-policy objectives. This requirement is fully in accord with the theory and practice of especially Soviet long-range economic planning, and with the tasks of perfecting the national economy's planned management system.

The state goal-oriented programs and the long-range target programs of CMEA cooperation are—and will remain under the next five-year plan as well—the principal form of the target programming approach in national economic planning, respectively in socialist economic integration.

The state R & D programs, clearly linked to the developments in science and technology, are becoming a new form of target programming in planning. These are goal-oriented programs of research and development that start out from the society-wide economic and social objectives and aim to solve selected important directions of the developments in science and technology. The substantive

orientation of these programs will be derived from the tasks specified in the long-range comprehensive programs and long-range developmental concepts of the branches. The programs will remain the starting point for drafting the five-year state plan of technological development. They are intended also to link research and development more closely with production and investment planning.

In distinction from the programs of technological development under the 7th Five-Year Plan, the state R & D programs will have a narrower orientation on the directions in science and technology that are of importance to the national economy, and whose extensive realization may be assumed on the scale of the entire economy. In principle, these programs will no longer concern themselves with questions that are being solved within the state goal-oriented programs. In most cases the results of these programs will be realized within a period of time longer than a five-year plan.

In the long-range outlook of economic and social development, the long-range comprehensive programs that are intended to solve the principal directions of the structural and qualitative changes and of selected objectives, in their interdisciplinary and intersectoral connections, are the main form of asserting the target programming approach. In the work to date on the long-range outlook, three long-range comprehensive programs have been drafted (the fuel and energy program, the program of raw-material policy, and the program for developing agriculture and the other branches that supply food). Pursuant to Resolution No 32/1984 of the Federal Government's Presidium, moreover, a long-range comprehensive program for the application of electronics will be drafted. It is assumed that all these programs will be parts of the basic directions of development.

In this context, we believe, it will be expedient to emphasize that, in elaborating the long-range outlook, the target programming approach should be employed not only in the form of resources-type programs (such as particularly the fuel and energy program, and the raw materials program), but also in the form of target-type programs that start out from the final objectives of socio-economic development—especially in the area of the population's living standard—and interconnect these objectives by means of a system of subprograms and provisions for resources.

This concept is evident to a certain extent in the program for the development of agriculture and the food industry. In setting its objectives, this program assumes that by 1995 the structure of food consumption will have approached to a considerable extent the requirements or principles of sound nutrition; i.e., that there will be structural shifts in favor of those items of food consumption that are a part of the necessary low-calorie component. Similarly, it would be desirable to elaborate on the basis of the target programming approach also the other questions of upgrading the main factors of the population's living standard.

The Objective: To Improve the Living Standard

In further work on the long-range outlook, it will be desirable to elaborate in greater detail the studies on the objectives in developing the population's living standard. These studies should enable us to specify the necessary

development of personal and public consumption and of investment in the nonproductive sphere, and subsequently to verify whether their development is realistic and feasible in the light of the assumptions and objectives regarding the formation of resources.

In the long-range outlook, work on the living standard starts out from its rapid and favorable development to date. So far as the quantitative volume of consumption is concerned, in the basic areas we are approaching the limits of sensible consumption (and in some items such as food consumption, for example, we are even surpassing them). Overall, we are ahead of many countries whose level of economic development is the same as ours or higher. Further development of the population's living standard must be oriented particularly on the qualitative aspects of consumer goods, and on creating conditions more favorable for the individual's all-round development, so that the living standard's rise and the development of entire society's life may become a means of mobilizing the human factor, the decisive element among society's productive forces.

On the basis of this approach, in the course of further work on the long-range outlook it will be necessary to evaluate, among other things, the intensity with which the living standard's principal components will develop, and their weights from the viewpoint of building a developed socialist society, under conditions when the resources available for the realization of these components are limited. In particular it will be necessary to determine the balance among satisfying material needs, providing more leisure time—including opportunities to utilize it actively—and improving the living environment.

Tentatively it appears that solution of the living standard's last-mentioned component—i.e., of the living environment—will require in the immediate future a substantial increase in the volume of investment resources and then, more generally, the gradual creation of an economic and social climate such that protection of the living environment will develop commensurately with its pollution.

Domestic and external conditions will continue to influence our economy also long term. A change of the domestic conditions, primarily the ensuring of a turnaround in the economy's intensification, will play a decisive role in the economy's complete adaptability. This involves the exploration and application of new ways and means to overcome the traditional barriers to economic growth and to ensuring the entire economy's necessary efficiency.

In our economy we have not only reserves accumulated during the period of extensive development, but also the prerequisites for mastering the new motive forces of development. A positive step in this sense has been 1983 and the basic approach to development in 1984-1985. But it would be unrealistic to assume that the process of turning our economy around has already been mastered completely (or that it is just beginning), and that the problems we are facing at present no longer require significant changes in the economy's real and systems development.

From the viewpoint of real solutions, the process is an interactive one where the solutions and the way out must be sought and found on the basis of thorough

and comprehensive analysis and synthesis, specifically by consistently optimizing the possible development. The resumed work on our long-range outlook may be regarded as a good start along this road.

The long-range outlook's problems stem at present predominantly from the resources, and not from the final objectives. In further studies, therefore, it would be appropriate and useful to place greater emphasis on the target approach, with the understanding that simultaneous studies will explore all possible ways of attaining the objectives, test how realistic they are, and elaborate further the existing problems.

The ten-year project of our development already is approaching the year 2000. Numerous analyses and forecasts indicate that by then the world will have changed considerably, and that there will be great technological changes as well. For example, the automation of production, and the application of robots and manipulators will gradually become dominant, which will influence also social and class development. Socialist society's way of life also will change. We must be prepared for all this in due time and in every respect. The long-range outlook through 1995 that is being elaborated should provide specific and real answers to all vital questions.

1014

C30: 2400/367

PRICES SAID TO REFLECT DEVELOPMENT OF ECONOMY

Prague HOSPODARSKE NOVINY in Czech 13 Jul 84 pp 1, 5

[Article by Eng Vlastimil Boura, CSc, first deputy minister, Federal Price Office]

[Text] Price developments reflect the development of the economy. This conclusion, confirmed by experience, not only expresses the state of the economy as it is mirrored in prices but also the considerable impact that prices have on the economy. For that reason, prices are currently at the center of attention, because, as the cutting edge of all market conditions, as a tool of the plan and its fulfillment, they can and must contribute to the increased output of our national economy. This is also true of the correlation between prices and technological development.

The impact of prices within the framework of the total mechanism of planned management of the national economy on technological progress already begins at the research and development stage, where 70 to 80 percent of the conceptual, construction, technological and material design realizations are predetermined. It is during this stage, above all, that production costs and prices of new products are determined, and thus also the effectiveness of our national economic development.

Need for Progress

World developments confront us with the need to bring about a basic change in the attitude of agencies and organizations toward technological development, a change that will mean that efforts to use the products of science and technology in manufacturing will be made on the basis of internal economic needs of an organization, rather than imposed from the outside. Toward this end prices, too, should be more helpful.

A number of measures were adopted in the area of wholesale prices, especially during the two 5-year plans, which are bringing about an accelerated and more effective technological development. The objectives are, above all, a quicker reaction of prices to changing market conditions, introduction of price limits, closer linking of prices to technical parameters and other applied properties of products, systematic strengthening of the stimulating effect of prices on technological standards, quality, on energy and material savings and economically justified changes in the range of products. These

measures vary in the intensity of their performance mainly according to a correct and consistent application in economic practice and to their interdependence with measures in other areas of management.

Resolutions of the 10th Plenum of the Central Committee of the Czechoslovak Communist Party, together with the concurrent experiment in management in the area of technological development and foreign trade relations, as well as work on the draft of a system of planned management of the national economy after 1985, give further impetus to finding a mutual, more effective way of correlating prices and technological development. It is necessary to adhere strictly to the resolutions of the Eighth Plenum of the Central Committee of the Czechoslovak Communist Party, which stated that the task of the price offices is to incorporate into a specific program of realization a system of price formation and incentives appropriate for technological development, make certain that state price discipline is maintained and exercise a more stringent control over prices.

In order to put these resolutions into effect, such mechanisms are gradually being introduced in all areas of price control—in planning, limitation and formation of prices as well as price incentives—as will more effectively bring about speedier improvement programs and the adaptability of organizations to the changing needs of both domestic and foreign markets, an acceleration of the research-development-manufacture-use cycle, and a greater consideration of economic and value indicators in the management of technological development.

To ensure proper execution of assigned tasks, price offices adopted detailed, relevant, time- and organization-coordinated progress charts of a future course of action. They are concentrating, most of all, on the problems of the currently one-sided effect of price incentives given the ineffectual application of prosecutions for price infractions, greater effect of prices on stages of research and development, closer linkage of prices to technical-economical parameters of products expressed through a broader application of foreign price comparisons, on a wider introduction of dual and gradually reduced prices, a better use of planned price changes to support determinative directions of technological development, as well as strengthening price control.

The achievement of a greater impact of prices on technological development requires, first of all, an increase in the effective use of the criteria-setting and stimulating function of prices in the area of research and development. The principal method of accomplishing this goal is a wider use of price and cost limits appropriate for an effective performance of technological development and a greater effectiveness of price incentives in scientific research work.

The importance of price limits is indisputable; following the experiences of the past 5 years, the need for them is generally accepted by central agencies and organizations and economic and technical management. Their relevance is best evidenced by the experiment in technological development, where correct and exacting price and cost controls are becoming the economic criterion of solving the tasks of the technological development plan.

The main function of price limits is to have an early enough impact on economical designs of new products in such a way that their manufacture, observing these limits, becomes profitable. By setting price limits, we are endeavoring to make economic criteria more significant even at the research and development stage, since they are as important for the effective realization of technological development as are technical criteria (parameters).

On the basis of hitherto gained experiences in applying price limits in practice and to guarantee the execution of tasks assigned in the sphere of price limits by the Set of Measures, price offices together with the State Commission for Technicological and Investment Development issued a new directive, No P-10/1983, on 1 March of this year.

This directive aims for further improvements in the setting of price limits, particularly in applying criteria derived from foreign markets, and extending price limits to the economically most significant improvements of all kinds of prices. Their application is being further extended to the area of purchase and retail prices, while at the same time the obligation to apply price limits is being rescinded in the case of those tasks of the plan for technological development which are intended primarily for an organization's or economic production unit's own needs, and to tasks of the technological development plan which are of insignificant capacity.

Meaningful simplification rests in rescinding the mandatory application of two price limits, i.e., preliminary and final limits of wholesale prices, and using only a single price limit in the case of tasks of the state plan requiring a relatively short design period. Greater use is being made of foreign price comparisons and of setting price limits according to parameters. We are acting in this instance according to our present experiences, which show that soft price limits have a negative effect on the intended objectives and are in direct conflict with the aims and tasks of the plan.

This, of course, makes the work of setting price limits much harder. As a consequence, the function of setting price limits, which until now was allocated to individual central agencies, is now concentrated in price offices, though attention paid to these limits by scientific research organizations should not be relaxed.

Value of Research and Development

The procedures of setting prices in research and development work are adjusted to specific conditions of the research and development activities, the creative and therefore difficult "determinable" character of the work. The use of the so-called preliminary price, based on expert projections, is being facilitated, with follow-up adjustments according to the actual progress of the work. In such cases where a price exceeds Kcs 1 million, the adjusted price level needs to be verified.

Design organizations have an interest in achieving lower than calculated costs, either through verification or through the possibility of an agreement with the buyer for an increase in price of up to 20 percent if the resulting design exceeds the estimate of the order or if work is cut short at the buyer's request. Conversely, a reduction in price should take effect. An increase or, respectively, a decrease in price consistent with the economic effect of a design and with shorter or longer duration of design work is expressed by individual increases or cuts in set prices. Conditions for applying them are set forth in a trade agreement or a planning document. At the same time, such cuts and increases are not subject to the mandatory follow-up verification of the cost of research and development work.

Putting these cuts and increases into effect provides a significant stimulus for the effectiveness and length of time needed for design research and development; in comparison with the standard rate of profit calculated into the price, it represents a doubling or tripling of it, depending upon the amount of cooperation and the cost of the materials. The effect of increases and reductions of prices of research and development work is strengthened by the fact that they are not projected into the indicators of the plan or respective organizations, but are a result of its fulfillment.

Proper working of introduced measures is based on mutual use; it is therefore not just a question of a one-sided effort of research and development organizations to be granted increases. The greatest contribution toward this end has to come from purchasing agencies and organizations, since it is mainly in their interest to request, conversely, a price reduction.

Incentives To Be More Strictly Gauged

At the present time, price incentives are directed toward those areas which are determinative for the further development of the national economy, such as acceleration of technological development, improvement of product quality, increased effectiveness of exports, savings of fuels, energy and materials, import payments, fuller satisfaction of demands for fashionable and luxury products and goods of exceptional quality.

Price incentives, expressing the usefulness of products for society, are not an isolated measure. They are tied directly into the system of evaluating products and are incorporated into the planning method and structure of economic involvement.

During the years 1978-1983, premium pricing was increased 3.5 times, while the greatest increase was registered in the premium pricing of products of first degree of quality.

In accordance with the directive of the 16th Congress of the Czechoslovak Communist Party and tasks pertinent to it as contained in the Set of Measures, price offices have gradually been implementing, since the year 1981, measures calling for more stringent requirements for granting increases and setting their levels. An essential condition for the premium pricing of manufactured goods on the basis of their technological advancement or

high quality is their contribution to the economy, which also determines the level of the premium price. Economic contribution is demonstrated in the case of products whose share of exports amounts to at least 10 percent, by their effectiveness in export; in the case of other products mostly by calculating their contribution during the process of their utilization, which has to be confirmed by the buyer. During the last several years, there has been a perceptible decline in the amount of the semiannual increment of premium pricing of technologically advanced products and a relatively small increase of the semiannual increment of premium pricing of first quality products in 1983, which proves that requirements for higher standards of technology and quality are being enforced.

The criterion of export effectiveness represents an economically justified method of setting the level of premium pricing dependent on results achieved in export. By applying this criterion, a number of new products which were judged to be technically advanced and of first quality do not rate premium pricing because they did not achieve the required effectiveness in export. As the next stage, we are contemplating the application of these principles even to consumer goods intended for the domestic market, naturally keeping in mind their specific conditions.

Changes being made in the system of management, such as the experiment in external economic relations, compounding of profits from internal and external activities in organizations under the jurisdiction of the Federal Ministry of General Engineering and changes in the financially economical instruments of foreign trade, in particular the introduction of the so-called effect from exports in 1983, are creating the environment for a basic change in the procedures for export production where premium pricing or penalty price reductions do not apply.

Prices which a domestic manufacturer realizes in exports (purchase price) already take into consideration the technological level and quality of a given product, as confirmed in foreign markets. General application of this precept would solve even the pressing problems of premium pricing of those new consumer goods which were premium priced for the domestic market but whose export effectiveness showed a decline.

During the next stage, the object will be to broaden the linkage of premium pricing to export effectiveness and to the possibility of deriving from the premium pricing (penalty price reductions) of final products even the premium (penalty price reductions) of final products even to the premium pricing (penalty price reductions) of determinative subsidiary supplies, and to strengthen the position of buyers in implementing as well as setting the levels of premium pricing and penalty price reductions.

The stimulating effect of prices is not one-sided. Economic stimulation of the development of up-to-date manufacture and more stringent criteria for acknowledging it have to be accompanied, more consistently than has been the case up till now, by a hard approach to technically obsolete and poor quality products. Price penalty reductions and their consequences for the economic incentive funds of organizations provide a powerful tool which has to be used consistently to best advantage in order to accelerate the improvement process.

Problems in marketing, getting low export prices, complaints of both foreign and domestic buyers are objective evidence that poor quality and obsolete products still exist in manufacturing programs, without, however, being so identified by the organizations. It is therefore necessary to set higher standards for evaluating and to apply economic criteria mandatorily. In implementing the planned price changes, the approach taken is to exclude from the suggested price lists increases in the wholesale prices of products which do not meet the minimum standards of export effectiveness.

The premise that we should change on a larger scale from a supplier's market to a buyer's market is gaining acceptance. It is a necessary qualitative reversal which will still take some time, but results achieved in certain areas confirm that the process has already begun. A stronger role of buyers in identifying technically obsolete and poor-quality products is therefore in complete harmony with this development.

Dual and Graduated Prices

One of the new methods of achieving an effective impact of prices on scientific research is creating conditions for a practical application of dual prices and the introduction of so-called graduated prices. The purpose of dual prices, i.e., higher prices for producers and lower for consumers of recurrently produced highly effective domestic products, is to support the interest of producers in the manufacture of such goods and of buyers in their consumption, in those instances where it is not possible to do so through single prices. It is possible to use this form of price incentive in the case of products which produce a considerable effect in the process of their usage, but where at the same time the introduction of their manufacture is tied objectively to temporarily high start-up costs and mastering their manufacture is a long-range process.

The difference between the higher price for the producer and the lower price for the buyer is made up to the producer from the resources of the state budget or the ministry contingency fund, from the emergency fund and the fund for technological development; a combination of these sources is also possible.

The higher producer's price, valid for a maximum term of 4 years, is set according to the development of planned total production costs and fixed rate of profits. The lower buyer's price is set according to the level of costs of a fully integrated production, therefore prices of the fourth and final year, keeping in mind foreign price comparisons and, if need be, possible imports.

Proposals for dual price formation are presented by the general management of the producer through the offices of the higher central agency which passes them on, with its stated position, to the appropriate price office and to the Ministry of Finance. The proposals include, other than the internal price levels, justification for the need to apply dual pricing, particularly an estimate of the economic effectiveness of the new product.

Parallel goals are sought by the introduction of graduated prices. The difference between them and the dual prices lies in the fact that graduated prices apply equally to the producer and to the buyer. Graduated prices will be applied to those advanced products where it is necessary to have the higher prices at the start of their manufacture direct buyers toward preferential use of the new products in those instances where they will bring the greatest benefit to the national economy.

The resolutions of the Eight Plenum of the Central Committee of the Czechoslovak Communist Party as well as the rules approved by the CSSR Government for the experiment in management of technological development made it possible for the Federal Price Office, in cooperation with the Federal Ministry of the Electrical Equipment Industry and the Tesal-Roznov economic production unit, to institute an important stage of dual pricing of state-of-the-art microelectronic elements. In the first stage, dual prices were employed in the whole range of combined microelectronic divisions representing roughly 1,500 products. Prices for buyers were reduced on the average by 45 percent, and the total reduction of wholesale prices, and thus also of the appropriations from the state budget, amounted this year to almost Kcs 500 million. In the case of state-of-the-art microelectronic elements, we strive for the maximum acceleration of applying the concept of reducing prices for buyers, to as much as 30 percent of current prices; at the same time, pressure is put on manufacturing organizations to reduce production costs. In this way, economic conditions are also created for a broadly based use of these components in the ensuing stages of production, a deciding precondition if positive results, arising from the application of new technology, are to be realized in the national economy as soon as possible.

Mutual Dependence

Requirements placed on prices for a more effective influence on technological development in common practice can be summed up in two basic points:

--with the help of price limits and prices of research and development work, ensure a close interconnection and high standards of technical and economic parameters applied in solving the tasks of technological development and link to their optimal fulfillment the collective, enterprise as well as personal material interests of pertinent organizations and workers;

--make better use of planned changes in the price structure, formation of prices of new products as well as price incentives for a faster introduction of the results of technological development into production, under conditions of a continuous up-dating of wholesale prices and the application of exacting criteria derived from the international division of labor.

Results of technological development together with external economic conditions are among the basic factors in improving the dynamics of economic relations. At the same time, however, a progressive and effective technological development depends to a considerable degree on how quickly and how readily it adjusts its focus to the dynamic development of value categories and criteria of effectiveness.

To assess the determinative tasks of technological development, a rational price structure is of great importance, one that reacts most accurately to the developments of internal and especially external conditions. The price structure, development of prices and price comparisons offer irreplaceable criteria and stimulus for an appropriate direction of technological development. Therefore the basic directive of the 16th Congress of the Czechoslovak Communist Party fully answers the needs of technological development in enjoining a continuously updated structure of wholesale prices.

The concept of continuous updating of the price structure, ensured not only by the implementation of planned price changes but also by new procedures in forming prices and price limits, is the most significant basic change of the price system, arising from its own nature and the needs of technological development. The procedures of ensuring a continuous updating of the wholesale price structure, the direction its planned changes will take, as well as the implementation of the complex updating of calculated rates of indirect costs and profits used in setting prices of new products, were already discussed in HOSPODARSKE NOVINY (41/1983, 5/1984).

12605

CSO: 2400/387

FUEL-ENERGY DEVELOPMENTS IN SEVENTH 5-YEAR PLAN

Prague **PLANOVANÉ HOSPODARSTVÍ** in Czech No 4, 1984 pp 27-35

[Article by Eng Miroslav Fiser, State Planning Commission: "Fuel-Energy Developments in the Seventh 5-Year Plan"]

[Text] There was a substantial increase in the price of fuel and energy on the world markets in the 1970's. All countries are looking for a way out of this situation and are taking actions both for higher utilization of domestic resources and for a more optimum way of evaluating fuel and energy inputs to the overall production process and increased utilization of unconventional energy sources.

Czechoslovakia cannot be an exception in this area. It is one of the countries whose energy raw materials base can be described as simple and insufficient. It gets more than one-third of the overall fuel and energy requirements from outside the country.

In the period of low prices, the increases in domestic consumption of primary energy resources were substantially met by importing liquid and gas fuels, as shown by the following data (in millions of twp [tons of standard fuel]):

	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
Consumption of primary energy resources in the CSSR	56.9	71.9	81.2	93.2	103.2
Growth in domestic consumption	-	15.0	9.3	12.0	10.0
Imports of petroleum and natural gas	3.3	8.4	15.2	26.3	35.2
Growth in the import of petroleum and natural gas	-	5.1	6.8	11.1	8.9
Share of the growth in import of petroleum and natural gas in the overall growth of domestic consumption of primary energy (in percentage)	-	34.0	73.1	92.5	89.0

At the same time that there was a growth in the importation of refined fuels, the make-up of domestic consumption of primary energy resources favorably changed (in percentages):

	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
Solid fuels	88.6	82.9	75.3	66.4	61.8
Gaseous fuels	2.8	1.5	3.3	5.5	8.8
Liquid fuels	6.7	11.7	17.6	24.6	25.5
Other	1.9	3.9	3.8	3.6	3.9

This development in the consumption structure, together with carrying out programs for rationalization, made a considerable contribution to reducing the energy demands in the formation of national income. In the period from 1970 to 1980 its level dropped from 259 tnp per million Kcs to 204 tnp per million Kcs, which is more than 21 percent.

Despite the fact that fuel and energy consumption per unit of national income created is dropping, the value of fuel-energy resources in the creation of national income is increasing substantially. Whereas, for example, in 1973 we used Kcs 46.4 million in primary energy resources in the creation of Kcs 1 billion, in 1980 this amount roughly doubled and reached Kcs 83.8 million.

The reasons for this development depend on a number of factors influencing the development of our economy in a given period. Among the most important is the continually worsening conditions in obtaining the necessary raw material inputs, especially fuel and energy. The transition of domestic extraction to areas with worse geological conditions and the reduction in quality in the fuels extracted must necessarily show up in the increase in expenses. Likewise, acquiring energy sources by constructing nuclear power plants or utilizing other unconventional sources is not cheap.

The price of fuel-energy resources on the world markets significantly affects costs for our economy. For example, the European capitalist market saw the following development in the 1970's (in U.S. dollars per barrel of petroleum energy equivalent):

	<u>Petroleum</u>	<u>Growth in %</u>	<u>Natural gas</u>	<u>Growth in %</u>	<u>Coal</u>	<u>Growth in %</u>
1970	2.00	100	2.25	100	3.60	100
1975	11.80	590	5.85	260	12.15	338
1980	32.50	1625	23.91	1063	13.13	364

It was only thanks to our being part of the close economic cooperation with the Soviet Union and the other countries allied in CEMA that the sharp increases in fuel and energy prices in the world did not show up to the full extent in our foreign trade balance of payments. But, even so, they were considerably burdened.

In 1970, for example, we paid Kcs 4.5 billion for imported fuel and energy, but in 1980 it was Kcs 28 billion. Most of the increased expenses were due to price factors. One should keep in mind, however, that the CEMA countries are having the same worsening of extraction conditions and expenses for transporting fuel and energy that we are. Soviet coal, petroleum and natural gas are being obtained from constantly greater depths and they are starting to extract from deposits in more remote areas under very difficult conditions. The average distance for transporting natural gas, for example, has roughly tripled in the past 10 to 15 years.

With this situation, we have already taken actions in Czechoslovakia directed at increased use of domestic resources. In the Sixth 5-Year Plan, the extraction of the key fuel for our economy, brown coal, increased by about 10 percent, which represents an increase of about 8 million tons. At the end of that period, the first section of the VVER 440-type nuclear power plant at Jaslovske Bohunice was put into operation. This, along with other actions, made it possible to orient developments to date in the proportions of fuel and energy imports in the total primary energy resources.

	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>
Proportion of imports in the overall primary energy resources calculated in standard fuel (in percentage)	10.9	18.7	25.7	34.1	37.8

We must keep in mind that there are substantial limitations on the development of our own fuel-energy base. The geological conditions are getting steadily worse. Further increases in the extraction of solid fuels would therefore be very expensive, to say nothing of the effects of further expansion of their consumption on the environment. At the same time, their quality will gradually decrease, and for that reason expenses calculated in standard fuel will grow. The development of a nuclear program is also capital intensive, but for the near term this is decisive for the development of our fuel-energy accounts.

The further development of our economy after 1980 was therefore possible only with a significantly high evaluation of fuel-energy inputs in the overall production process. This means not only changing approaches to ensuring greater economy in the processes directly using fuels and energy, but also directing attention to stimulating innovative processes, increasing the technical level and quality of production, structural changes in the national economy and enterprises, economic use of our economy's products, including basic funds and products which are especially demanding of energy, etc.

Some comparisons with other countries (for 1980) show that our economy still has considerable reserves in this area. Currently the CSSR is one of the highest countries in terms of per capita consumption of energy. Countries with similar conditions, such as Hungary, Austria, or France, have per capita consumptions of roughly 40 percent less. We reach the same conclusions in comparing the energy costs per value of domestic product.

	Per capita energy consumption		Energy costs to produce domestic products	
	<u>twp/per person</u>	<u>%</u>	<u>twp/thousands of dollars</u>	<u>%</u>
CSSR	6.74	100	2.48	100
GDR	7.41	110	2.37	96
USSR	5.60	83	2.51	101
Hungary	3.85	57	1.81	73
FRG	5.73	85	1.80	73
France	4.35	65	1.49	60
Austria	4.16	62	1.48	60
Sweden	5.27	78	1.60	65
Japan	3.69	55	1.26	51
United States	10.41	154	2.58	104

These figures come from official international statistics. However, they conceal a certain imprecision in methodology, especially as far as the value indicators are concerned. One must also take into consideration the varying conditions influencing the level of consumption in the individual countries, such as, for example, the make-up of domestic consumption of energy, climatic conditions, the structural development of individual branches of the economy, etc. But this comparison does confirm that the Czechoslovak economy ranks among the top in the world in its energy demands. It is also an important fact that from the standpoint of the dynamic development of these indicators after 1970, the mutual relationships do not change in favor of Czechoslovakia in comparison with the industrially developed countries, even though the energy required for creation of national income dropped by 55 twp per million Kcs from 1970 to 1980.

The continuously more complicated situation in acquiring fuel and energy has also required intensification of the entire rationalization process. The CSSR Government took the necessary steps to resolve this problem in the fall of 1981 as part of the state plan for the development of the national

economy for 1982 and also approved a set of technical, economic, organizational and administrative measures in the field of fuel and energy consumption. This mainly involved an effective slowing, and in some cases a limiting, of the rate of development of selected energy-intensive products and technologies which consumed mainly petroleum products and a change in the make-up of construction operations and transportation. A number of actions were directed at improving the efficiency of energy equipment with the development and production of improved consumer products. It was also decided to finish working up the State Target Program 02, "Rationalization of the Consumption and Use of Fuel and Energy" and in comparison with its projections to increase the extent of actions so that savings from these measures by 1985 would amount to roughly 14.6 million tnp.

A substantial part of these measures were directed at creating conditions for the rational use of energy resources in the area of economic stimulation and monetary incentives, both in the positive sense and as sanctions. In evaluating the fulfillment of economic plans, one of the decisive factors introduced is the maintenance of the planned level of fuel and energy consumption.

Priority emphasis is given to saving petroleum products. A consistent system of allocating motor fuels was introduced. At the same time, approval was given to the principles of the governmental decree in effect from 1982 on supplemental deliveries or, where applicable, returns of supplies when exceeding the established limits for supplies (or consumption) of selected types of petroleum products (heating oil, petroleum, automobile gasoline, and diesel motor and heating oil).

The newly approved measures together with consistent application of the principles of the Set of Measures To Improve Management of the Economy thus create the conditions for a higher evaluation of fuel-energy inputs to the overall production process. It was also for this reason that the Seventh 5-Year Plan for the development of the national economy in the period 1981-1985 itself set demanding goals in the area of the fuel-energy accounts. As opposed to the last period, it allows a maximum of half of the growth rate in domestic consumption of primary energy resources, and this is concentrated in the later years. But its level for 1985 of about 108 million tnp also contains reserves left in as contingencies in the resource part of the accounts. The resources allocated, which are the limits on supplies of fuel and electricity consumption for the given fund holder, are therefore almost another 2 million tnp lower.

The 5-year plan is based on a sharp limiting of petroleum product consumption with a slight increase in the consumption of solid fuels, greater use of natural gas and a growth in the production of electrical energy by nuclear sources. The reduction in their use will be applied to energy consumption as a priority. Besides an accelerated replacement of the more costly products in this area, in comparison with 1980 the consumption of heating oil is supposed to be one-quarter less in 1985.

Along with the Seventh 5-Year Plan, approval was also given to State Target Program 02, "Rationalization of the Consumption of Fuel and Energy." The implementation of the actions contained in this program is supposed to achieve a savings of 14.56 million tnp at the 1985 level. Of this amount, selective structural changes in the production sphere should save 2.35 million tnp, especially in metallurgy, chemicals, and construction. The program is divided into eight sections according to the main consumption areas. A number of actions cut across the lines. It also directs the production base to secure the necessary measuring and regulating equipment, semiconductor elements, improved lighting, insulation and fireproofing materials, etc.

This area continuously receives special attention with regard to the further development of the situation in acquiring fuel, energy and raw materials. Besides the problems concerning development of the fuel-energy base, the highest party and governmental organs also regularly evaluate the fulfillment of goals in the consumption area. The basic goals of the program for ensuring the extent of rationalization actions are being met. However, the fact remains that for various reasons we continuously run into delays in meeting the original planned actions and their replacement by others. In addition, some measures which cut across various fields directed at ensuring the production of materials and equipment necessary to support the rationalization actions in the consumption field are not being satisfactorily carried out. For these reasons, the leadership of the CZCP Central Committee in October 1982 decided to work up the "State Target Program for the Rationalization of Savings in the Consumption of Fuel and Energy," especially from the standpoint of ensuring its implementation in 1983 and later years of the Seventh 5-Year Plan. It also took on proposals for comprehensive measures in the area of the system of planned management, organization, economic tools and material and technical requirements which ensure a more proper approach to the implementation of actions concerning fuel and energy consumption in the spirit of the resolutions of the 16th CPCZ Plenum. At the same time, it gave advice on check-ups in society on the conservation of fuel, energy and motor fuels throughout the economy.

Results of the first stage of checks in society were discussed by the CSSR Government last year. It also took actions to make use of them and further decided, in agreement with the Central Trade Union Council, to expand the operations of the Commission for Checks in Society and in the field of metals, raw materials and material. At the same time, it evaluated the experience to date with the fulfillment and support of the program for "Rationalization of the Consumption and Use of Fuel and Energy" and established further directives for its implementation in the remaining years of the Seventh 5-Year Plan and the period of preparations for the Eighth 5-Year Plan.

As was stated earlier, the extent of implementation of rationalization actions directed at savings of fuel and energy is being satisfactorily met. The goals established in that area for selected ministries and national committees were fulfilled in 1981 by 114.6 percent and in 1982 by 113.7 percent. Preliminary data for 1983 show that the goals in this area were likewise exceeded.

All of the above actions, including fulfillment of the state target program, contributed to the fact that domestic consumption of primary energy resources in 1981 and 1982 did not exceed the level reached in 1980. Likewise, in 1983 we expect the level of domestic consumption to be around 102 million tnp, even though the development of the national economy in 1983 achieved greater growth than provided for in the state plan.

A positive factor in the development of the fuel-energy accounts is also the fact that we have succeeded in redirecting the consumption of liquid fuels. A further reduction in the consumption of heating oil in 1983 is expected even after the significant limiting in the years 1981 and 1982. Meanwhile, the consumption of this fuel shows the following development (consumption of heating oil in 1980 as 100 percent):

	<u>1981</u>	<u>1982</u>	<u>1983</u>
actual figures (in percentage)	96.2	85.0	83.0

Reductions in the consumption of fuel oil were helped by the implementation of specific measures which were directed particularly at:

- a reduction of the share of heating oil in producing electricity;
- limiting some technologies which were demanding of heating oil (drying rooms, etc.);
- implementation of rationalization measures, especially in the field of reducing consumption of heat produced from heating oil;
- greater use of natural gas, which is burned in combination with heating oil in dual-fuel systems (for the production of cement, heat, petrochemicals, etc.);
- modification of consuming devices to other fuels.

Thorough implementation of the measures in the field of the consumption of motor fuels and other petroleum products (asphalt, etc.) also helped to reduce the overall consumption of liquid fuels during the last 3 years by roughly 3 million tnp and thus helped in fully meeting the goals set for this area in the Seventh 5-Year Plan.

From the critical standpoint, however, we must point out the fact that in many cases the new situation was not fully understood by consumers. Not only did they not create the necessary conditions for further desirable limitations in the consumption of petroleum products, but on the contrary often requested increased consumption of those fuels in an attempt to solve other problems of theirs, such as in the area of the labor force, investments, etc. This approach must be clearly rejected. However, we expect that the suppression of these tendencies will be helped by some economic measures, especially the last adjustment in wholesale fuel and energy prices carried out on 1 January 1984.

To a considerable extent, petroleum products were replaced by natural gas, which as a source designated for domestic consumption grew by about 1 billion cubic meters from 1980 to 1983. Even with these mistakes, there was thorough application of the principles for utilizing gaseous fuels, that is, the current preference for technological consumption and selected territories.

Great use of domestic resources also helped to reduce the consumption of heating oil. Especially in the power field, the share of brown coal power plants in the production of electricity increased. The greater part of the increase in brown coal extraction was designated for this consumption purpose. This grew by about 5.6 million tons from 1980 to 1983. The Sokolov mines exceeded the output plan for 1983, just as in recent years, by 1.1 million tons. The implementation of decisions made at the level of the highest party organs, the utilization of mining capacity even on non-working days and the implementation of other measures helped the situation at the Mostec mines, where last year they exceeded the planned goals in coal mining by 2.3 million tons. Thanks largely to those mines, in 1983 there were 100.5 million tons of brown coal extracted.

In fulfilling the brown coal mining plan and exceeding it, it was possible to have a desirable increase in the consumer supplies of solid fuels. In comparison with previous years, it reached the following levels on 31 December 1983 (in thousands of tons):

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Brown coal (of which:)	7220	5778	6411	7447
Coal supplies	880	762	705	889
Power generation	3464	2437	3113	2992
Anthracite (of which:)	2033	2100	2340	2690
Coal supplies	154	134	135	203
Power generation	910	836	1041	1241

The greater supply of brown coal in 1983 also helped resolve the situation in the electrical energy accounts. As a result of poor hydrological conditions, the plan for the production of hydroelectrical power was not fulfilled. On the other hand, the limits for consumption of electrical energy established in the state plan were exceeded. For these reasons, it was necessary to cover the shortfalls with the steam generating plants of the Federal Ministry of Fuel and Energy by 1350 GWh of production above plan. Factory power plants also exceeded the production plan by 450 GWh.

While the planned production by hydroelectric power plants was not met for objective reasons, one must analyze the reasons for not keeping to the consumption limits for electrical energy in more detail. The higher

electricity consumption represents almost 1.5 million tons of brown coal. Even though the production plan was exceeded, the question remains whether the increased consumption of electrical energy was actually always used for higher production, for which the deliveries were made.

The state plan for 1984 is also studying the efficiency of development of the national economy. This starts with the fulfillment of the Seventh 5-Year Plan to date and with an evaluation of actual opportunities for utilizing the internal reserves of our economy. It is more directly oriented toward production to achieve maximum savings in fuels, energy, raw materials and other materials. It propagates the tendencies which positively influence reductions in energy demands. It assumes further limiting of production which is fuel and energy intensive, such as metallurgy. With more rapid growth in the economy, it still plans on lower use of fuel and energy resources in comparison with the intentions of the Seventh 5-Year Plan for domestic consumption by some 2.2 million tnp. The level can then reach 104 million tnp.

In comparison with the foregoing fact, domestic consumption in 1983 increased by roughly 2 million tnp. This increase from year to year can be quite high and can lead to incorrect conclusions that the state plan for this area is not reckoning with a further intensification of the rationalization process. In this connection one should remember the favorable development of climatic conditions in the past few years, which also influenced the level of domestic consumption to a considerable degree. This development can be demonstrated, for example, by the number of degree-days, which expresses the total deviation of the average daily temperatures from the average temperature established for heated buildings, which is about 18°C. While the long-term annual average is about 3430 degree-days, the development of this indicator in the past few years has been as follows:

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Number of degree-days	3739	3374	3372	3155
Percentage of the long-term average	99.0	98.4	98.3	92.0

Under our conditions, one can project consumption of about 5,000 tnp of fuel and energy for heating for each degree-day. When we take these facts into consideration, we reach the conclusion that the energy demands for the creation of national income must be reduced by 2.3 percent as against the preliminary data for 1983 while correcting domestic consumption for the average course of climatic conditions.

State Target Program 02, "Rationalization of Consumption and Use of Fuel and Energy," assumes implementation of rationalization actions whose effect will be an annual savings of about 2.4 billion tnp, which is about the level of the past few years. This means that any worsening influences acting negatively on the development of energy demands (worsening conditions in extracting fuels, etc.) must be completely eliminated by further supplemental measures directed at fuel and energy savings. In this area, full use is also

planned of worker initiative in the sense of the resolutions of the 10th All-Union Plenum of the BCU on surpassing the goals in the area of rationalization by a further 0.5 percent. For these reasons, it is also necessary to speed up the implementation of the results of the checks in society in economizing in fuels and energy, which are also directed at economizing in other raw materials and materials, especially fuel and energy intensive ones (metals, cement, etc.).

A positive factor in the fuel-energy accounts for 1984 is the fact that in connection with the increased importation of natural gas and the growth in production of electrical energy at nuclear power plants there has again been an improvement in the development of the composition of domestic consumption of primary energy resources, as can be seen from the following comparison (in percentages):

	<u>1980 actual</u>	<u>1982 actual</u>	<u>1983 expected actual</u>	<u>1984 planned</u>
Solid fuels	61.8	62.6	63.0	61.5
Liquid fuels	25.5	23.6	22.7	22.7
Gaseous fuels	8.8	9.9	10.0	10.6
Other	3.9	3.9	4.3	5.2

Despite the drop in the share of solid fuels in overall consumption, its absolute level of consumption remains at last year's level. Its supply will be made available for the most part in brown coal. Taking into account the status of supplies at the end of 1983, this year's plan presumes that the delivered mine output will be 0.5 million tons lower than the established goals of the Seventh 5-Year Plan. Their level should reach 97.9 million tons. Roughly 0.9 million tons of brown coal will be used up from the consumable supplies in the course of this year.

Likewise, the consumption of other solid fuels remains roughly at the level of last year. As in the case of brown coal, it is expected that in 1984 about 0.3 to 0.4 million tons of anthracite coal will be used from the consumable supplies.

The use of natural gas is increasing significantly by almost 9 percent compared to actual usage in 1983. Its increase, which is in accordance with the intentions of the Seventh 5-Year Plan, makes it possible to meet justifiable needs fully. Deliveries for the area of market funds are increasing by 12 percent and deliveries for the other spheres by roughly 6.5 percent.

The quite considerable increase in deliveries of this refined fuel must be used efficiently. In keeping with the principles of the fuel-energy policy, it is necessary first of all to ensure the planned switch-over of household appliances from city gas to natural gas. Specifications of the limits for deliveries of natural gas must also follow the scheme of replacing

the most expensive fuels, that is, petroleum products. From the standpoint of the nature of the supplies, it is necessary to give priority to the use of natural gas for technological purposes, and only after that for the production of heat. Another important factor is the unconditional necessity to give preference to selected territories with the most rapidly deteriorating environments.

In keeping with the program of measures leading to a restructuring of the fuel-energy balance based on effective evaluation of petroleum, in 1984 there will be a further reduction in supplies of heating oil designated for domestic consumption. This requires further work in replacing that fuel and understandably also requires that priority be given to actions of a rationalization nature in conserving it. Likewise, the state plan for 1984 assigns specific tasks in this field which are a follow-on to the further limiting of petroleum product consumption and maintenance of the intentions of the Seventh 5-Year Plan. It is, however, very desirable that the consumption of petroleum products in the field of energy consumption be limited even more sharply than the plan calls for in 1984.

Electrical energy accounts for 1984 call for the production of 77 billion kWh. The total increase is to be provided by nuclear power plants, but their production will be 3 billion kWh less than in the Seventh 5-Year Plan because of changes in the dates for construction of the third section at Jaslovske Bohunice and the first section at Dukovany. This shortage will be partially eliminated by higher production at the first two sections of the nuclear power plant at Jaslovske Bohunice, whose operations have achieved continuously good results. Despite this, it is also necessary to increase output from steam-powered generator plants to meet the goals of the Seventh 5-Year Plan. In comparison with the actual figures for 1983, however, production at these sources will drop by about 2 billion kWh. On the other hand, the share of the nuclear power plants in the overall production of electricity has grown from 8.1 percent in 1983 to 10.9 percent in 1984.

The growth of electricity consumption corresponds to the more rapid dynamics of economic development. While in 1983 we expected its growth to be about 1.5 percent (without transmission consumption), the plan for 1984 calls for an increase of roughly 2 percent; this growth must fully take care of the needs of our economy.

The state plan for 1984 puts demanding tasks on the fuel and energy branch. Their demanding nature further amplifies some continuously persistent deficiencies in bringing new capacity into operation. We must proceed even more emphatically to ensure that the goals in the rationalization of fuel and energy consumption are met. As was already stated, the fuel-energy accounts presume that the planned goals will be surpassed in this area in keeping with the resolutions of the 10th All-Union Plenum of the ROU. It is also anticipated that there will be accelerated implementation of results which come out of the checks in society on economizing in fuel, energy, motor fuels and other raw materials. All efforts in this area, with due regard for the development of climatic conditions to date, must therefore be directed at reducing the domestic consumption of primary energy

resources below 104 million tnp, which in the fall of last year was worked into the state plan for 1984.

It will be necessary to proceed similarly in preparing the plan for 1985. It is already necessary now to prepare for further intensification of the rationalization process so that domestic consumption does not exceed roughly 104 million tnp, and our entire economy should change over to a less energy-intensive type of development. We must always keep in mind that the path to reducing energy demands in the national economy is less costly than a further increase in fuel extraction or additional construction of other energy sources.

6285

CSO: 2400/392

IRON INDUSTRY'S EFFECT ON AIR POLLUTION

Prague HUTNIK in Czech No 5, May 84 pp 161-164

[Article by Dr Eng Oldrich Bohus, Ostrava: "Emissions, Damage, and Costs To Protect Air Quality in the CSSR Ferrous Metallurgy Industry"]

[Excerpts] The purpose of production is to cover the material requirements of the national economy. An inseparable part of this, however, is environmental protection, to which every citizen has a right under article 15 of our Constitution. Metallurgical enterprises, therefore, in addition to production also carry out measures to protect and enhance the environment. The resolution of environmental problems, however, is costly in terms both of investment and the maintenance and operation of separating and scrubbing equipment.

The damage caused by emissions to agricultural and livestock production, to forest and water management activities, to the housing stock, cultural monuments, steel structures, as well as to the health of individuals is considerable and impossible to enumerate precisely. The reason for the difficulty and imprecision of these calculations is that there does not at present exist a unified and effective technique for assessing damage. This is a particularly difficult task because the emissions caused by the individual enterprises in industrial agglomerations with multiple plants, various production processes, and equipment and separating apparatus of differing levels of effectiveness end up being lumped together. Likewise, establishing the costs of environmental protection is complicated because innovations in production equipment and technology result in concurrent improvements in the environment.

The results of research in this area have not as yet received practical implementation. One example is task VI-6/2, "Economics and the Policy of Environmental Protection and Enhancement," the constituent tasks of which were concerned with the establishment of criteria for a public evaluation of the economic effectiveness of resources allocated to the environment, as well as a methodology for determining the costs of environmental protection and enhancement. A research project has also been completed, entitled "Theoretical Considerations in Determining the Contribution of Resources Expended on the Environment in Relation to the Standard of Living."

Emissions

Metallurgical enterprises are for the most part aware of the magnitude and composition of their emissions. The figures are more or less precise depending on the method of their determination. The magnitude of emissions is either measured or calculated. The basis for these calculations and assessments are the amount and composition of the fuel and charges used, the amount of flue gases and of particulate emissions.

In 1980 the ferrous metallurgical industry emitted 131,666 tons of solid emissions, whereas the target was 76,380 tons. The overall amount of these emissions, however, has been displaying a declining trend. From 599,500 tons in 1965, dust emissions were reduced to 234,450 tons by 1970, and to 144,280 tons by 1975.

As long as equipment to entrap sulfur dioxide from flue gases is not manufactured in this country, and fuels not desulfurized, or the fluidized burning of fossil fuels not introduced, metallurgical enterprises will have no impact on the amount of sulfur dioxide. Sulfur dioxide emissions depend on the amount of sulfur in fuels, as well as in the raw materials put in charges. The presence of carbon monoxide and of nitrogen oxides depends on the combustion conditions.

The emission of pollutants in individual enterprises depends on the type of production engaged in and the equipment used. The greatest source of dust in metallurgical plants are the power generation facilities, which account for 48 percent; other sources are agglomerations (10.6 percent), steelmaking facilities (6.7 percent), coking plants (4.4 percent), and the blast furnaces themselves (2.6 percent). Of the total volume of carbon oxide emissions, blast furnaces account for 41.5 percent, followed by agglomerations with 23.4 percent, power plants with 14.4 percent, steel-making facilities with 12.3 percent, ferro-alloy operations, rolling mills and other operations with 2-3 percent. Sulfur oxide is emitted mostly by power plants (52.5 percent), then agglomerations (14.2 percent), steel-making and coking plants (7.3 percent each), and blast furnaces (3.5 percent), with all other operations accounting for 14 percent. The greatest amounts of nitrogen oxide come from the power plants (34.7 percent of the total) and steelmaking facilities (28.2 percent), followed by coking plants (11.8 percent), agglomerations (10.3 percent), blast furnaces (8.5 percent), and others.

The measurement, calculation and assessment of pollution is of practical importance because it indicates places where it is essential to focus the attention of air technicians and operational experts. A determination of the order of importance for eliminating sources of pollution in the CSSR and for resource allocation may be made based on the data compiled during the work of the Technical-Economic Research Institute for the Metallurgical Industry (TEVMI) in Prague, according to which ferrous and nonferrous metallurgy account for 13 percent of the total amount of about 1.6 million tons per year of solid emissions, and for about 8 percent of the total of

about 2.1 million tons of gaseous emissions per year in the CSSR. Thermal power plants, electric power plants and boiler facilities of non-energy generating enterprises account for an additional 13 percent of the solid and 25 percent of the gaseous pollutants in the CSSR, the power generation industry for 24 percent and 30 percent, respectively. Other industrial sectors, with the exception of petroleum processing, which accounted for 19 percent of the annual gaseous emissions, account for substantially lesser percentages of the annual pollutant output.

Damages

Dust and gas emissions cause great damage to the national economy. The losses are proportional to the amount, concentration, and the length of time that given pollutants have been present.

Damage caused by solid and gaseous emissions is estimated in the vicinity of Kcs 3-4 billion annually, with Kcs 0.7-1.2 billion spent each year on health care. Other sources estimate the amount of damage at Kcs 5-6 billion per year. Neither source breaks down the damage caused by the metallurgical industry in particular. Let us reconstruct it, then, from the available data.

--Assuming total dust emissions of 1.6 million tons per year and gaseous emissions of 2.1 million tons per year, and that the emission figures given for metallurgical facilities are accurate, then the metallurgical industry accounts for Kcs .920 and 1.23 billion of damage per year;

--According to this data, if the metallurgical industry is responsible for 30 percent of total emissions, it would account then for Kcs 1.5-1.8 billion of damage per year.

--An approximate calculation of the damage caused by the dust and the sulfur dioxide (excluding other gases) emitted by the enterprises of the General Directorate of Ferrous Metallurgy (GRHZ) and Vitkovice, according to the above data, comes to Kcs 320 million per year. The calculation assumes Kcs 1,010 of damage for each ton of emissions.

Damage to agricultural output has been estimated at Kcs 470 million, on forest and water management at Kcs 420 million, on protected monuments and the like at Kcs 150 million, and that resulting from corrosion of capital stock at Kcs 2.5 billion. No estimates have been made of the costs of damage to human health, to livestock production, of destroyed plants and animals, of declines in the populations of smaller animals and birds, of soil degradation resulting from the disruption of drainage patterns caused by the destruction of forests, etc. These are not impacted negatively by metallurgy alone, but by our entire industrial sector. The impact of foreign emissions must also be accounted for.

TEVUH data estimates nationwide health-care-related damages at Kcs 0.9-1.2 billion per year. Assuming that metallurgy accounted for 20 percent of this, it is responsible for Kcs 180-240 million per year. Total economic

losses for the CSSR, stemming from the impact of pollutants on workers, have reached the amount of Kcs 5.5 billion, taking into account occupational diseases and work-related accidents. This figure was composed of Kcs 2.1 billion in lost production, and supplementary costs of Kcs 2.4 billion. No figures are given for the share accounted for by the metallurgical industry. This figure would be Kcs 1.1 billion, based on a 20-percent share of generated emissions.

Metallurgical emissions account for 1,299 kilotons of a total volume of 5,717 kilotons. Given a 22.6 percent share of the total emissions and total damages of Kcs 3-4 billion annually, it follows that metallurgy accounts for Kcs 680-900 million of damage per year. Assuming Kcs 5-6 billion of total damages, metallurgy would account for Kcs 1.13-1.35 billion annually.

From the above it is obvious that estimates and calculations of damage differ substantially. This results both from the imprecise measurement of emissions as well as from a lack of a uniform methodology for assigning emissions to the appropriate production sector. Metallurgical plants are also affected by emissions from their own boilers and electric power plants, and by emissions from factory transportation operations.

Costs

Our state expends substantial resources each year on environmental protection. Expenditures on facilities and equipment to reduce emissions at existing sources of dust are about Kcs 500 million annually. An approximate additional total of Kcs 480 million is spent for this type of equipment at capital construction projects currently under way. Costs of monitoring emissions and controlling them are about Kcs 20 million annually. Research and development costs are about Kcs 50 million per year. The decontamination of urban air costs are about Kcs 250 million per year. At the same time, the construction of new facilities for the production of separating equipment costs about Kcs 50 million per year, and about Kcs 3 million per year is expended on the acquisition of the requisite foreign licenses.

The foregoing data is for the past decade. Comparing it with the damage that has been caused shows that costs of this magnitude are inadequate to meet the current needs for this type of equipment. With increased production intensification and the scope of environmental pollution, the costs of equipment to limit this pollution are also rising. Increasingly sophisticated and extensive supplementary equipment must be installed, the operation of which requires qualified operators, larger energy inputs and most costly maintenance.

What sorts of expenditures is our metallurgical industry making to improve the environment? One indicator is investment outlays for air technology as a percentage of total investment costs. Investment outlays for the protection of the working and overall environment in our metallurgical sector were Kcs 158 million per year from 1961 to 1965, or 1.1 percent of total investment outlays. These outlays increased to Kcs 537.3 million from 1966 to 1970 (4.05 percent of the total), then declined from 1971 to 1975, in line with

overall reductions in investment, to Kcs 349.3 million (3.54 percent of the total). In the most recent 5-year plan these outlays were estimated at 3-4 percent of total investment expenditures. Almost 64 percent of this total was used for the protection of air quality. Of the total, 35.4 percent was invested in coking plants, 38.7 percent in steelmaking facilities, 21.8 percent in power generation, 0.8 percent in rolling mills, and 3.3 percent in all other operations.

In Japan, investments in environmental protection have been running at 20 percent of total investment outlays and more, in the United States at 13-16 percent. The percentage in Great Britain and in the FRG has also been in the vicinity of 20 percent. In the 1976-1980 period outlays in the USSR were about 6 percent of total investments. In Great Britain the investment allocations for dust separation were distributed as follows: coking plants, 4 percent; agglomerations, 15.1 percent; oxygen converters, 39.9 percent; electric arc furnaces, 13.3 percent.

Conclusion

The preceding analysis suggests that the ferrous metallurgy industry of the CSSR emits about 140 kilotons of solid and 1,400 kilotons of gaseous pollutants annually. Their impact on the environment is evident in damage to the national economy valued at Kcs 1-1.5 billion annually.

Metallurgical plants expend about Kcs 300 million per year of investment resources on the protection and enhancement of the environment, especially on air quality. Costs for the maintenance and operation of protective air technology equipment run about Kcs 150 million per year. In addition, metallurgical plants pay for their air pollution in the form of fines paid to national committees and compensation for damage to agricultural enterprises and forests in the amount of about Kcs 50 million per year.

These expenditures are not effective either for the metallurgical plants or for the damaged organization. A comparison of the amount of damages with the expenditures by metallurgical plants on environmental protection shows that the damages are many times more extensive than outlays enterprise. The national economy bears the brunt of this situation for both participants--the polluter and the victim. It is therefore essential to eliminate the source of the damage, a goal which may be achieved by reducing the volume of emissions and by trapping pollutants.

Enterprises have no incentive to increase their outlays on environmental protection because the more resources an enterprise allocates to this purpose the fewer resources remain to develop production, thereby hampering the economic performance of the enterprise. Expenditures on the environment do not contribute to production increases, productivity or profits. Likewise, agricultural and forestry losses cannot be replaced merely by the payment of damages.

Some foundation must therefore be established for the implementation of environmental protection measures. This basis includes compensation for the investment outlays involved for new equipment, for the upgrading of deficient apparatus and the rebuilding of that which is obsolete. The postponement of necessary investments results in increased damage.

The means of separating solid emissions is well known and is being gradually implemented at metallurgical plants. The separation of gaseous emissions has likewise been technically mastered, but has not yet been implemented in the USSR because of the high investment and operational costs involved. The first facilities for sulfur dioxide entrapment and the fluidized combustion of coal are now being constructed for the power industry. The costs for the maintenance and operation of this equipment are being absorbed by the metallurgical enterprises through improvements in the metallurgical production process. Fines for polluting the air and other damage are paid by the polluter. These amount to about 0.1 percent of production costs, thereby creating something of a barrier to the development of equipment for environmental protection, because they are lower than the investment required and the maintenance and operating costs of the equipment.

Further possibilities for reducing emissions are provided by changes in production techniques which are often, in fact, related to innovations in production equipment, changes in the raw material or energy base, as well as to the structure of production. The metallurgical plants themselves do not have an impact on many of these factors.

The air quality law, No 35/1967, makes all polluters responsible for seeing to environmental protection. With their measures, the metallurgical plants have been gradually reducing emissions. Nevertheless, they continue to disrupt the natural ecological balance. The most effective strategy is to increase activities through an extraordinary allocation of targeted investment resources for specific projects to improve the environment, with the resources coming from central sources. The attitude toward environmental protection would also be improved by the announcement of a state priority program for environmental protection and enhancement that encompasses, among other things, air quality.

9276
CSO: 2400/380

ELECTRONIC INDUSTRY RESULTS REVIEWED

Prague HOSPODARSKE NOVINY in Czech 1 Jun 84 p 2

[Text] As was determined at the 10th Plenum of the CPCZ Central Committee, the electrotechnical industry is managing to maintain its lead over the machine tool industry. In the first 3 years of the 5-year plan production was increased by 24 percent, especially in the manufacture of electronic parts, in the computing and automating aspects of technology and in consumer electronics. The electrotechnical industry has even exceeded the prescribed production of goods, its own regulated output and profits.

This development also continued in the first quarter of this year, according to all the significant indicators. In conformity with the need to intensify and expand its production base, the industry has succeeded in increasing the number of workers by 2 percent, distributing them fairly throughout the productive economic units.

The process of the relative lowering of material, fuel, and energy consumption continued further. By this means the dynamics of self-regulated expenditures was facilitated and conspicuously accelerated. In the first quarter of this year an increase of 115.7 percent was attained (in contrast to a comparable period last year). All the productive economic units shared in this to differing degrees. Tesla Electrotechnical Parts Roznov provided the highest contribution (126.1 percent). Below average are VMJ Tesla Measuring and Laboratory Instruments Brno, Chirana Stara Tura, the Automation and Computing Technology Prague Plants, the High Energy Electrotechnology Prague Plants, and Tesla Investment Electronics Prague.

At the 10th Plenum it was once again emphasized that one of the key issues in the further development of our national economy is better usage of energy, metals, and materials. This year the goal of the electrotechnical industry is to achieve a relative reduction in the use of ferrous metals of 4.6 percent, and for the year 1985 this goal would progress to as much as 6 percent. In nonferrous metals a relative reduction of more than 2.7 percent is anticipated in 1984, and no less than 3.5 percent in 1985. In reducing the use of fuels and other energy the industry wants to achieve a decrease of 3 to 4 percent.

The electrotechnical industry must contribute to the attainment of plans for reducing the use of materials and energy throughout the national economy as well. For this reason its priority must be the material and technical implementation of the process of electronization in all the remaining branches. Specifically, this means the ensuring not only of a sufficiently wide assortment of high-quality and inexpensive electronic parts, circuits and systems from domestic production, but also deliveries from socialist countries within the framework of specialization and cooperation.

The efforts of worker collectives from enterprises and plants are also oriented toward a further increase of choice, which is generally conveyed by the indicator of earnings. In the first quarter 26.1 percent of this year's goal had been attained. The productive economic units of Tesla Consumer Electronics of Bratislava, Tesla Electronic Parts Roznov and the branch enterprise Tesla Eltos secured above average quotas. At the same time both the economic production units (VHJ) and the High Energy Electrotechnology Plants achieved the greatest dynamics in the growth of earnings compared to the first half of 1983.

In conformity with the conclusions of the 10th Plenum of the CPCZ Central Committee, the electrotechnical industry is making progress in the production of goods, the productivity of work, the material basis, and in the reduction of the use of fuels, energy, and metals.

In the first half-year the fulfillment of the plan should improve with regard to the majority of significant indicators. This relates especially to self-regulated operations, where more than half the VHJ's can foresee the prospect of fulfilling less than their share of the annual plan: these are the High Energy Electrotechnology Prague Plants, Chirana Stara Tura, Tesla Measuring and Laboratory Instruments Brno, and Tesla Investment Electronics Prague. Likewise, supplies for the domestic market demand greater attention above all at VHJ Tesla Investment Electronics Prague, Chirana Stara Tura and the High Energy Electrotechnology Prague Plants.

A complicated situation exists in the area of exports to socialist and non-socialist countries. In exports to socialist countries the fulfillment of the half-year quota of the plan is not assured in a majority of the VHJ's apart from Tesla Measuring and Laboratory Instruments Brno and Tesla Electronic Parts Roznov. A similar situation holds for exports to nonsocialist countries. The complete quota of the annual plan has only been fulfilled by VHJ Tesla Consumer Electronics Bratislava and the Automating and Computing Technology Prague Plants.

The 10th Plenum of the CPCZ Central Committee was concerned with questions of improving quality and reducing losses from low-quality products. Development in the electrotechnical industry is in accord with this scheme. Compared with 1980 the proportion of products which are on a high technical and economic level increased from 4.92 percent to 10.57 percent in 1983, and 1100 kinds of products of this quality were manufactured. For the year 1985 a minimum goal has been set—to achieve a 14-percent share of products of this category.

Losses from low-quality production in the year 1980 made up 1.28 percent of the goods produced; in the year 1983 they were reduced to 0.82 percent. For the year 1985 the electrotechnical industry has set itself the goal of reducing losses from low-quality production to below 0.70 percent. Results from the first quarter of this year demonstrate that this positive trend will continue. Greater attention, however, must be devoted to the phenomenon of losses from low-quality production at VNI Chirana Stara Tura and Tesla Electronic Parts Roznov; in the first quarter of 1984 losses were higher than last year at these enterprises.

The electrotechnical industry is beginning to work on the recommendations of the 10th Plenum of the CPCZ Central Committee. It is aiming to exceed the goals of the Seventh 5-Year Plan; and in the production of goods it is planning to secure the upper limit of the goal established by the 16th Congress of the CPCZ, that is, in 1985 to achieve an increase in the dynamics of production of 150 percent compared with 1980. This year calls for fulfilling the production plan for goods by 109.2 percent, and for the year 1985 progress toward a guideline of 110.6 percent.

The electrotechnical industry is considering higher goals in order to satisfy the needs of the national economy and to increase its overall effectiveness. This year already the so-called dual price system was approved; this further reduces the prices of important electronic parts and creates greater pressure for decreasing costs in enterprises that produce goods. The path of progressively higher goals that has been embarked upon will facilitate and create conditions for the further reduction of costs and thus also of prices. This will increase the ability of these trimmed-down products to compete in nonsocialist countries.

It is necessary to promote the above-mentioned schemes in all the VNI's, enterprises, and plants, and to consider them the basic orientation for securing the goals of this year's plan and of the following years of the Seventh 5-Year Plan.

12313

CSO: 2400/359

CHALLENGES OF ENVIRONMENTAL PROTECTION CONSIDERED

Prague KONTROLA in Czech No 3, 4, Mar, Apr 84

[Article by Eng Jan Koncel, CSR People's Control Commission: "Attention Focused on Environmental Protection"]

[No 3, Mar 84 pp 3-7]

[Text] The main guidelines for the economic and social development of the CSSR for 1981-1985 approved by the 16th CPCZ Congress include, among other things related to the environment, the task of "considering concern for the environment and its improvement to be an important part of the standard of living of the population." Specifically, the entire control system has been directed to pay close attention to compliance with established norms and regulations related to the protection and improvement of the environment, to monitor this area closely and to battle against everything that harms the environment.

The Sixth 5-Year Plan contained an independently formulated section entitled "Protection and Enhancement of the Environment" which contained objectives related to various aspects of the environment. This part of the plan has only an orientational character for the time being, meaning that management by the plan in this area is not yet up to the standards of the other sectors of the national economy.

On the other hand, the protection of individual parts of the environment is assured in the legislative-legal arena with an appropriate system of laws and regulations. Every component of the environment is covered by a number of legal standards relating to the protection of the air, water, soil, forests, vegetation, the disposal and utilization of wastes, protection against noise, laws related to the living and working environment. These are not, however, being complied with or enforced with the requisite strictness.

The underlying mandate for environmental concern is found in the Constitution of the CSSR, No 100/1960 SBIRKA, along with Law No 20/1966 SBIRKA, regarding concern for the health of individuals; the law concerning fines for violations of legal regulations regarding the development and protection of healthful

living conditions (No 36/1975 SBIRKA); the water law (No 138/1973, SBIRKA); Law No 53/1966 SBIRKA regarding the preservation of the agricultural soil fund, as amended by Law No 75/1976 SBIRKA; the law governing state protection of nature (No 40/1956 SBIRKA); the forest law (No 61/1977 SBIRKA), and others. In addition to these fundamental laws, decrees have been issued related to environmental protection. These include Decree No 45/1966 SBIRKA, related to the development and protection of healthful living conditions; Decree No 40/1963 SBIRKA, concerning compensation for damages caused by emissions to socialist agricultural and timber organizations, and others.

The mere definition of legal responsibilities is not in and of itself sufficient to stop unfavorable developments without consistent monitoring of compliance and without the concurrent establishment of the requisite financial, material and production facilities needed to assure environmental protection.

The principle of state policy on environmental protection is that the entity which is responsible for a given type of damage to the environment is responsible for rectifying the damage. Moreover, the causes of the damage must be completely eliminated, and under no circumstances after the specific damage has been dealt with. This means that preventive measures have been, are, and will always be more effective and less expensive than ex post facto measures taken to resolve a specific problem. Likewise, however, there are obvious economic constraints involved, namely that a given society can afford only that amount environmental quality for which it has the resources at any given time and under specific conditions. This is the first consideration. The second consideration is that environmental protection is not a private matter, or the concern only of localized okreses or locations. Thirdly, the quality of all aspects of the environment is an essential component of the standard of living and a fundamental precondition for its improvement.

Therefore, economic requirements for environmental protection must always play the same role as economic requirements for production. The only possible and proper path to take is that of the further economic development of the national economy at the same time that effective measures are being implemented to protect all aspects of the environment.

All of these requirements, however, cannot be assured in one or two 5-year plans, even though calculations indicate that the industrially advanced countries will have to expend more than 10 percent of total investments in their national economies on environmental protection.

At present economic and noneconomic evaluations are concerned only with the negative impact of production activities on aspects of the environment. Moreover, these evaluations assume full knowledge of the consequences of this activity and compare these with acceptable standards.

The purpose of these evaluations of the negative impact of human activities on the environment is above all to determine the character and scope of these consequences and to discover their causes, a process often expressed

in terms of violations of the law, so that these causes may be taken into consideration in the practical management and planning of future economic activity and in the establishment of measures directed at the elimination or at least the limitation of these negative consequences.

The system of control agencies has been dealing with individual problems within the overall complex of the environment with greater and lesser degrees of success. Undoubtedly positive results are evident, for instance, in measures related to the protection of the agricultural soil fund or the prevention of water pollution, solving problems related to wastes and others, where correctly implemented controls have led to changes for the better. This does not mean, however, that all options have been exhausted. It is therefore absolutely essential to focus control activity on the entire complex of problems and to make whatever adjustments are feasible without committing investment resources. The following directives for inspection agencies related to the basic components of the environment should assist in realizing this objective.

Air Quality Is the Basis

There still exist objective situations which are preventing an immediate turnaround in eliminating the effects of emissions. These include low fuel quality (high sulfur coal), a lack of needed and appropriate boilers, and conflicts between supply and demand for separators, as well as purely economic consequences. The fundamental problem is one of proving a relationship between atmospheric emissions and the level of damage caused by local pollution resulting from the uneven location of industry, or even the long-distance transmission of pollutants by the natural circulation of the air.

Among the largest polluters of the air are electric power plants, thermal power plants, heating plants, residential and other boiler installations, as well as chemical plants and other production plants and enterprises. The negative impact of emissions on vegetation and the soil (as well as on building and structures) is not subject to controversy.

Emissions directly harm substance transfers within affected vegetative organs of plants. They accumulate in these organs as well as in the soil itself, causing excessive acidification of the soil, which in turn results in further changes for the worse in the sorptive capacities of the soil.

Even though, beginning with the Fifth 5-Year Plan, we have been partially successful in stabilizing the emissions of solids, the technical-economic problem of restricting other emissions, above all sulfur dioxide (SO_2), remains.

The central organ of state administration for the protection of air quality is the Ministry of Forest and Water Management of the CSR which, among other things, proposes technical-economic measures related to air quality, and monitors assurance of and compliance with these measures in the economic activities of several branches and sectors. The Czech Technical Air Quality

Inspectorate (CTIO) is the inspection agency responsible for this. Its activity is focused on making professional supervision of sources of air pollution more precise, on increasing the rigor of control activities, above all in the most highly polluted industrial areas and population centers.

The CTIO inspectorates annually conduct hundreds of inspections of the basic sources of air pollution and otherwise carry out the measures established by CTIO decisions. Based on the results of these inspections, they submit recommendations to the appropriate national committees for the assessment of fines. Of the total proposed organizational fines, 80 percent are for failure to perform scheduled maintenance or to assure the trouble-free operation of equipment, and 20 percent are for failure to carry out corrective measures.

By way of implementing preventive measures to resolve problems related to air pollution, above all in the form of CTIO technical requirements, the inspectorates include with their reports suggestions for programs to avoid future instances of pollution. The system of inspection agencies must, therefore, focus its activities on issues of discipline in the utilization of all existing environmental protection equipment, assuring its correct and smooth operation, and making sure that the senior managers of the respective production and nonproduction enterprises properly fulfill their job responsibilities.

In performing inspection work the most effective procedure is first to develop a working relationship with the appropriate office of the CTIO, and then to work with it to formulate in some detail the strategy for the inspection, paying special attention to the clarification of:

- fulfillment of job responsibilities by senior managers and performance of service according to operating instructions to assure the smooth functioning of equipment; assuring that ways of eliminating or limiting pollution through noninvestment techniques are being actively pursued and implemented where possible;
- progress that is being made in carrying out the resolutions and corrective measures indicated by CTIO inspections and other controls and inspections; evaluating the effectiveness of these measures or, if applicable, any sanctions that were applied;
- whether the planning process is making allowances for the necessary financial resources and deliveries to assure the fulfillment of priority projects related to environmental protection;
- whether or not scheduled maintenance and the proper functioning of separators and other equipment, including modern incineration equipment, has been assured;
- whether, where fines were levied, the responsible person or persons

within the organization has been determined, and whether they as well have been fined;

-- the type and adequacy of the damage compensation caused by emissions to socialist agricultural and forestry organizations.

Preventing Further Water Pollution

The primary influences on water management in the CSR are the development of industry, agriculture, housing policy, transportation and recreation. Specific sectors participate in current water consumption very unevenly. It is estimated that the energy generation and fuel sectors account for 36 percent, the chemical industry 25 percent, the public 21 percent, the metallurgical industry 6 percent, agriculture and the food industry 8 percent, the consumer goods industry 2 percent.

In a number of locations the self-cleaning properties of water have been disrupted. The pollution of water by wastes from public sewerage systems, industry and agriculture increased during the Sixth 5-Year Plan. While, for example, the organic substance pollution indicator was only 0.2 percent higher in 1976 than in 1971, between 1976 and 1981 it increased by more than 30 percent. The number of instances in which waste water leaks into underground water supplies is increasing. For instance, as a result of the chemicalization of agriculture not only is there increased pollution of surface water due to flushing, but also to contamination through percolation, particularly of nitrates from industrial fertilizers. The number of accidents, i.e., the unexpected pollution of streams or underground water supplies, is increasing. Correcting the damage caused by these accidents often involves the expenditure of substantial resources. At the same time, the number of accidents which have been conclusively documented to have been caused by gross misconduct, indifference and failure to comply with basic responsibilities and commitments is increasing. For instance, in the 1980-1983 period there were 203 accidents in the food and agricultural sector. In terms of types of pollution, liquid manure, urine and feces accounted for 32 percent of these accidents; silage fluids 28 percent; petroleum substances 16 percent; waste water 11 percent; pesticides 4 percent; lime fertilizers 3 percent; industrial fertilizers 2 percent; and chemicals 2 percent.

Currently about 1 percent of total investment resources are set aside for the construction of treatment facilities and separators. The projected scope of construction of additional treatment plants in the Seventh 5-Year Plan does not allow, for the time being, the beginning of preventive construction projects at other significant sources of pollution. For this reason, to restrict the further growth of water flow pollution it is essential to implement intensification measures at existing water treatment facilities and to be consistently disciplined in the area of water purity.

The supervision of water resources management is the responsibility of the Ministry of Forest and Water Management and organs of the state water management inspectorate. Inspections have turned up a number of shortcomings

in the performance of state administrative activities in national committee jurisdictions and in production organizations. There have even been violations of agreed-upon conditions in cases where the government has agreed to the release of waste water that technically violates the water law. In 1983 alone, an additional 1,900 applicants requested special considerations. Inspectors of the CSR state water inspectorate (CSR SVI) have examined 600 of these requests and proved that they are unsubstantiated, carelessly documented, and based on incomplete and sometimes false data and argumentation. In many cases planned measures of the water management organs to rectify accidents have been ignored, as well as the guidelines for cleaning up after such accidents. Recreational facilities and fishing trips have also been improperly approved in protected water resource zones.

When constructing new housing projects decisions concerning permits for the construction of sewage and waste water treatment plants and the discharge of waste water under the water law often do not include the condition that the discharge of waste water may not begin until the resultant waste water is treated in a completed waste water treatment facility.

A major cause of water pollution is the failure on the part of managerial and planning authorities to anticipate their needs in the planning for, material and financial assurance of construction projects and in the maintenance of waste water treatment facilities, including the procurement of necessary equipment.

The fundamental measures which must lead to proper operation and even the further intensification of existing facilities include the maintenance of labor and technological discipline, particularly in situations where their violation results in negative consequences for the purity of our water supplies. Inspection organs must base their activities on these considerations. Therefore, in their water quality inspection procedures they should focus, in cooperation with the professional staff of the State Water Management Inspectorate and organs of the hygienic service, on the following:

- 1) assuring favorable conditions for the planning, material and financial support of the construction of treatment facilities, including proper equipment;
- 2) fulfilling the development concept in the area of waste water treatment facilities; discovering instances of and the reasons for the postponing of treatment facility construction and the results thereof;
- 3) implementing a strategy for introducing innovations in treatment technology and for treatment facility modernization;
- 4) assuring compliance with the job responsibilities of treatment facility operators and the proper operation of equipment;
- 5) assuring the fulfillment of the job responsibilities of individuals involved in water management;

- 6) monitoring the situation in the undertaking of inspections during the operation and maintenance of sewer systems and waste water treatment facilities by the appropriate inspection divisions of organizations;
- 7) performing control analyses of each instance when a national committee has less than fully accepted the recommendation for a fine by the State Water Management Inspectorate;
- 8) compliance with conditions in those instances when the government has agreed to the release of waste water that is technically in violation of the water law, and the justification for all granted exceptions to the water law;
- 9) in the agricultural sector, they should monitor the way that the interests of water management are resolved in cases involving the agricultural soil stock, in the sense of paragraph 17 of the water law; whether there is compliance with mandated amounts and concentrations of agricultural chemicals applied according to accepted procedures; the approach to the construction and repair of liquid manure and urine pits to restrict the inflow of rainwater. Moreover, they should be involved in plans for the construction of permanent field manure and compost piles with closed collection pits, and with whether and how the appropriate regulations are being complied with for the storing and pumping of petroleum products, as well as how construction is proceeding on fertilizer storage facilities, especially for lime and liquid fertilizers;
- 10) the inspection in other production plants and enterprises of the situation in the construction of waste water treatment facilities and the operation and functioning of sedimentation tanks;
- 11) whether decisions on all economic activities treat the protection of ground water resources as a priority;
- 12) whether there is a systematic overview of the sources of water flow pollution, whether it is regularly updated and whether a priority list has been developed for eliminating them.

More Assertive Approach to Soil Protection and Utilization

The primary objective with regard to the soil fund is to restrict to acceptable levels losses of agricultural land. During the Sixth 5-Year plan the amount of agricultural land in the CSR decreased by 69,000 hectares. Fully 64 percent of this decline was due to conversion to forest lands and other types of areas. A further 31 percent of the loss came as the result of the seizure of agricultural land for investment purposes (21,000 hectares). These seizures of agricultural land are not only a matter of mere lost area (Government Resolution No 28/1982 provides for a hectare for hectare replacement), but rather a matter of replacing production. Even though the production potential of our land has not yet been exhausted, it is not possible to replace 1 hectare of highly productive land (especially protected land) with a sure yield of 5 tons of grain per hectare with a less productive hectare of land which is capable of producing, say, 3 to 4 tons per hectare

but with very high production costs. Even if the financial transfers for the requisitioned land cover the increased production costs, they can scarcely make up for the lost production itself.

The fundamental problem is that the vitally essential intensification, above all, of plant production (which leads to substantially higher production of green matter, therefore enriching the atmosphere with oxygen and moisture) is not being fully accompanied by the protection of nature from the consequences of chemicalization, the concentration of livestock production in large feedlot operations, or the operational activities of the food and processing industries. The economic necessity of developing large entities has made it difficult to coordinate the production of wastes with the possibilities for returning them to the earth, which in turn leads to the substantial pollution of the air along with surface and ground water.

The maintenance of the current, even if less than optimal tradeoffs in land requisitioning requires the most sensible and responsible possible approach to newly approved capital construction projects, to the disposal of industrial and municipal wastes, as well as the construction of recreational facilities, etc., bearing constantly in mind alternative solutions to the planned land requisition.

The damage to agricultural land by heavy equipment, which compresses the subsoil layers, is a serious problem. The greatest problems occur with very heavy and heavy soils. Research indicates that there are at least 100,000 hectares of very heavy and 170,000 hectares of heavy soil in the CSR, as well as 840,000 hectares of soil classified as difficult to cultivate, out of a total area of 6.9 million hectares.

Two main reasons may be cited for this increase in soil compaction. The first is so-called natural soil compaction, which is determined by the composition of the soil itself, its clay content, excessive wetting without natural drainage, and the pressure of upper layers. The other is known as artificial compaction of agricultural land. This is composed of a whole series of phenomena of which the major ones are: continually heavier agricultural machines, inappropriate implements, insufficient ploughing depth, unnecessary crossings, transport on agricultural land under excessively damp conditions, the insufficient addition of organic matter to the soil as a result of changes in livestock raising operations, the saturation of the land, inappropriate planting practices that do not take into account the need to renew the soil structure, inappropriate composition of industrial fertilizers and, finally, insufficient liming. The chief negative impact from soil compaction is the stagnation or reduction in per-hectare yields. The results of independent research abroad and in the CSR estimate the declines to be on the order of 5-10 percent, with declines of up to 30 percent for crops that are more sensitive to soil structure, such as the sugar beet.

Another problem stems from previous improper technical and economic preparation of plots, when the merging of plots was accompanied by an increase

in wind and water erosion. The consequences of erosion are evident on almost half of all land. Water and wind erosion have a variety of causes. Among the most important are the almost complete elimination of ground cover, improper agricultural equipment usage, large spaces of monoculture, the elimination of the remnants of distributed greenery, etc. Wind erosion is difficult to measure. On the other hand, the loss of soil particles to water erosion has been measured on severely affected plots at 250-500 tons per hectare/year. An additional negative factor is the ongoing unfavorable water condition of the soil, which not only results in a deteriorated soil profile, but also seriously affects yields. Negative chemical influence include the use of high dosages of artificial fertilizers, including chemical protective preparations. This results in a gradual reduction in the amount and quality of living soil microorganisms or their one-sided selectivity. This is directly related to the demonstrated fact of reduced humus levels in the soil caused in part by the inadequate addition of cow manure, inadequate liming and a low level of perennial fodders in the sowing plan, etc.

The central agencies of state administration for soil protection are the Ministry of Agriculture and Food of the CSR; the CSR Ministry of Forest and Water Management for issues related to the forest land fund; and organs for the protection of the agricultural land fund, i.e., national committees. In particular, national committee agencies for the protection of the soil fund have the responsibility of assuring the efficient use of all plots, including the submission of proposals for the conduct of technical and economic modifications; in cooperation with geodesy agencies they provide documentation that plot boundaries are accurately marked, take care of hygienic measures related to soil protection in the vicinity of potable water supplies, as well as carrying out other tasks entrusted to them by legal regulations, in particular Law No 77/1976 SBIRKA concerning the authority of soil protection agencies.

In connection with inspections of the protection of the agricultural land fund, shortcomings are persisting in the conduct of replacement recultivation resulting from the requisitioning of agricultural land for investment purposes, which reached the level of 6,278 hectares in 1982. The transfer of smaller and unworked plots belonging to large agricultural organizations to citizens is proceeding unsatisfactorily. Not all villages have taken an inventory of such plots. Plots that are currently not being worked are not being returned to intensive cultivation at a fast enough pace. National committees are still making decisions in a number of instances without knowledge of the basic requirements for agricultural soil. Their decisions do not include the proper financial amounts for transfers, i.e., that assume the permanent removal of soil from agricultural production. Soil protection organizations are not making full use of the legal possibilities for sanctions for the improper requisitioning and failure to utilize soil (in 1982 not only 205 fines were levied against organizations and only 195 fines against citizens). Basic physical inventories for 1979-1980 were not properly taken in all instances and do not therefore reflect the true differences between the description of land and its natural condition. Direct

field investigations in 1982 at 290 agricultural enterprises turned up 54,184 instances of the use of soil in violation of its binding, documented condition. The field monitoring of decisions that have been issued remains the weakest part of the protection and utilization of the agricultural soil fund.

No solution has yet been found to the problem of water flows onto adjacent agricultural land, where these unregulated water flows result in soil saturation, etc. Effective recultivation measures are not being undertaken for soils affected in this manner. Senior managers of agricultural enterprises are not paying close enough attention to proper, scientifically based application procedures for artificial fertilizers and chemical protective preparations. This in turn results in negative impacts on the soil profile, the destruction of microorganisms, the pollution of ground water, and unnecessary economic losses, i.e., the failure to utilize their production potential.

For these reasons the entire inspection system for soil protection must be focused on the following key areas:

- 1) whether the terms of decisions that have been issued related to agricultural soil protection are being complied with;
- 2) whether the plan for returning currently fallow land to agricultural use is being followed;
- 3) monitoring progress in the elimination of the consequences of unjustified water flows onto adjacent agricultural land, including the resolution of problems related to water and wind erosion, the fulfillment of antierosion measures, how they are being covered materially and financially, and how effective they are;
- 4) whether agricultural activity on plots of land and fishing activities on lakes are complying with acceptable water management conditions in terms of the amount and quality of water and whether, where it is needed, these activities contribute to water management relationships;
- 5) what progress is being made in recultivation work and the transfer of recultivated plots;
- 6) what measures are being taken, and their effectiveness in the elimination of residual foreign matter in the soil;
- 7) whether the full utilization of agricultural land has been assured, what progress is being made in the transfer of plots inappropriate for large-scale farming to citizens and organizations;
- 8) what use is being made of smaller and dispersed plots even in non-agricultural organizations;

- 9) whether permanent agreement has been achieved between enterprise and enterprise-supervisory soil documentation records and actual land/use;
- 10) what measures have been taken and what their results have been in the recultivation of compressed soils;
- 11) whether the scientifically based application instructions for artificial fertilizers and chemical protective preparations are being complied with.

[No 4, Apr 84 pp 6-10]

[Text] Increased Attention Devoted to Forest Protection

Approximately one-quarter of the total forest area in the CSR has been affected by emissions. Pollution by sulfur dioxide, nitrogen oxide, chlorine compounds, the heavy metals lead and cadmium, etc., are causing a reduction in the photosynthetic performance of the forest, which over several years has led to an overall weakening in the vitality of the forest and a related lack of resistance to natural conditions such as drought, cold, insect attacks, etc. It has been necessary to cut down more than 30,000 hectares of the affected stands which had ceased to perform either productive or nonproductive functions of the forest. The worsening growing conditions in the forests of the CSR has resulted in a change in the harvesting possibilities both in terms of the amount of harvested lumber and its quality. A further negative incursion on forest lands is the gradually mounting pressure to remove forest plots from the forest stock for construction purposes both as a result of stricter measures to protect the agricultural soil fund as well as due to capital construction and recreational programs.

Rejuvenating the forest, especially by new plantings, is being significantly hampered by a lack of appropriate and resistant types of tree seedlings and other timber species. In a number of places the condition of young forest stands is deteriorating, more frequently now as the result of animals, and especially due to the chewing of the bark of the young trees in the winter.

State administration of forest land management is carried out by the CSR Ministry of Forest and Water Management and national committees. These agencies have been finding that forest management plans have not been fulfilled, that in many instances forest plots are overgrown. Tasks are not being fulfilled in the tending and renewal of forest stands. During harvests not all the remains and wastes are disposed of, which increases the danger that pests will multiply. For these reasons the attention of inspection agencies should be focused on the following areas during individual inspection trips:

- 1) whether users of forest plots and forest stands protect them sufficiently, and manage them properly to fulfill the function of a forest;

- 2) whether or not forest parcels are being set aside for investment projects;
- 3) to what extent forest management plans are fulfilled, and whether or not the forest is overgrown; whether tasks in the tending and renewal of forest stands are being performed, whether remains following harvesting are being removed, thereby reducing the danger of multiplying of pests, and increasing the amount of marketable wood;
- 4) monitoring the effectiveness of the penalty policy of the agencies of the state administration of forest management against organizations and citizens who violate the established laws.

Care for the Countryside and the Protection of Nature

The object of concern for the countryside and the natural environment are areas that are renowned for their natural beauty. Approximately 20 percent of the territory of the CSR is protected. These include the national parks (Krkonosky National Park), protected areas (Orlické Mountains), and nature reserves, including natural formations and trees, species of plants and animals. But these areas are also severely affected by the inroads of the devastation of nature. The objective reasons for this are, basically, the need to extract natural resources, primarily coal, and the ensuing reclamation and recultivation following mining activities, i.e., the elimination of waste rock and sediment. Even the partial devastation of nature is to be expected in protected areas from waste dumps, which will continue to influence the entire environment, i.e., the air, land and water. In addition to these factors, capital construction projects that were not well thought out in the past will continue to contribute to the devastation of nature. Large capacity livestock raising operations are an example of this. The subjective, negative factors which, however, may be successfully resolved, thereby contributing to the retention of the character of the countryside and the natural environment, include the renovation of abandoned and neglected roads (even though they may be used sporadically by agricultural enterprises), the elimination of weed growth along these arteries and on rights of way, as well as right in the middle of towns, the cleaning of waterways and their banks, along with their regulation, the repeat usage in construction of demolished materials from damaged panels and debris. Of special importance in this regard is the disposal of wastes from recreational areas and mountain recreation facilities.

Greenery generally performs a number of useful functions, beginning with the biological and continuing through the reduction of noise (suppresses up to 25 percent of noise) and dust (reduces it by 40 percent), the moderation of temperature and humidity conditions, along with enriching the environment with oxygen. One square meter of green surface produces about 4 kilograms of oxygen per year, while the average consumption of oxygen per capita is about 260 kilograms per year. Greenery greatly reduces the negative affects of automotive exhaust. Like forests, greenery is destroyed by emissions. At present the responsibilities of investors, builders, owners and users to protect greenery are not being upheld, nor

are potential projects that might harm, disrupt or even destroy greenery being discussed. Trees that are standing alone are now often cut down in the course of construction projects.

For a number of reasons (labor force, mechanization, etc.), the expansion and maintenance of greenery is highly dependent on the activities of citizens. National committees have the authority to develop effective defenses against the harming of existing greenery, the cutting down of trees, bushes, the destruction of lawns and parks, to monitor the protection of greenery during capital construction projects, etc. The damaging by equipment of surface parts, the restriction of their living space by building around them, paving, and the use of salt during the winter all destroy greenery, street and road plantings.

Territorial planning, or more precisely its planning documentation, such as urbanizing studies, territorial master plans, construction lots for family home construction, territorial projects, etc., do not in all instances assure the ongoing balance between all natural, civilizational and cultural values in a given territory, especially in terms of its environment and its protection. Territorial planning documentation is arranged by the basic divisions of the organs of territorial planning, which include national committees and their construction offices, as well as territorial planning agencies of the Ministry of Construction and Technology. The development of the countryside demands a more assertive and comprehensive resolution with the assistance of territorial plans, especially those related to urbanization.

The character of the countryside is in many instances destroyed by the failure to comply with the conditions of the building permit for new construction (housing project or individual), including added-on buildings and other construction modifications related to environmental protection. Managerial and technical tasks are not being performed by national park administrations nor are they cooperating effectively with national committees and production organizations in their districts. Owners and users of given territories are not assuring to the maximum extent the actual protection of plants and animals. Organizations and production enterprises are inconsistently fulfilling tasks and measures to upgrade centers for the protection of monuments and the protection of nature. Overall management of wooded and green areas near towns and cities is not adequate in terms of cleanliness, the availability of beach and parking spaces and other recreational amenities. The permitted amounts of salt to be used during the winter are being exceeded. There are significant irregularities in the recultivation of plots after mining operations.

Control agencies should focus their attention, both when cooperating with national committees and when working with volunteer workers of the state nature protection, on the inspection of the following basic problems:

- 1) whether specifications have been met and the conditions of building permits complied with for new construction (housing project and detached),

including additions and other construction alterations from the viewpoint of natural protection;

2) whether the economic and technical tasks of the national park administration have been fulfilled and whether they are cooperating with the national committees and the production organizations in their districts;

3) what sort of job the cultural divisions of national committees are doing in maintaining state lists for natural protection and how the actual protection of plants and animals is carried out by the owner or the user of a given territory;

4) the extent to which national committees see to the management and planning of the comprehensive development of the management and tending involved in the protection of protected territories, including the managerial effectiveness of centers for the caretaking of monuments and for the protection of nature;

5) the number and specific results of the work of conservers and inspectors of the state administration for the protection of nature;

6) progress in construction and management of forest plots near towns and cities in terms of adequate recreational equipment, the adaptation of the forests to recreational operations, their cleanliness, outfitting with public amenities, beaches and parking spaces;

7) compliance with the plan for recultivation following mining activities;

8) compliance with the permitted amount of salt per square meter of road surface in the winter months;

9) whether there has been any unjustified cutting of individually growing trees and whether national committees issued permits for any such violations;

10) in what ways, if any, the protection of greenery is being assured, what the developmental trends for the amount of area in greenery are, and what accounts for its decline;

11) whether conditions have been created for the maintenance and cultivation of public greenery (the requisite equipment);

12) compliance with the binding aspects of approved territorial planning documentation;

13) the utilization of territorial decisions by construction offices (the totality of the conditions established in the territorial decision).

Even Wastes Can Be Used

The biggest consideration here is the wastes from the mining and processing of coal, from metallurgical and power generation operations, from industrial, agricultural and construction production, including public and household wastes. This waste (production waste, dust, smoke, water, etc.) remains in the environment. Waste disposal costs are significantly increasing. The area occupied by dumps, which are almost exclusively on agricultural land, amounts to almost 6,500 hectares. Public pressure as well as economic necessity are moving in the direction of better utilization of the raw material inputs, i.e., by changing production waste into another useable raw material. At present, the most commonly used secondary raw material is iron and the nonferrous metals, which have a reuse rate of about 30 percent. About 130,000 tons of metal disappear at dumps annually, which is one-third of the amount procured by raw material collection centers. These centers procure 450,000 tons of paper, representing a saving of 4,500 hectares of forest, while an equal amount disappears into dumps. The same is true of glass, rubber, plastics, etc.

The average daily production of solid household wastes is 0.75 kilograms per capita. Of this amount of about 3 million tons, only 1 percent is disposed of through composting, another 1 percent is incinerated, and the remainder winds up in dumps.

Recent research into defects at dumps is ominous. Toxic substances have been shown to be present in water that has seeped through dumps and in polluted water that flows out of dumps.

It has been clearly established that every organization is responsible for the safe disposal of production waste. The responsibility of caring for the healthy disposal of solid wastes stems from hygienic and other regulations and standards that protect the air, water, soil and living conditions of the population from the negative impact of solid wastes. The elimination of solid household wastes is taken care of by national committees, who are also charged with the construction and administration of dumps. They are responsible for seeing that public health regulations are complied with, identifying locations for the accumulation of solid wastes, and determining the means for their disposal or further processing. Organizationally, all of this belongs to the area of public services which are provided by organizations managed by national committees. The same organizations are responsible for the cleaning of public spaces, roads, and the caring for public greenery. Significant problems arise when arranging for the removal of wastes by men and equipment, because the requirements for their disposal are becoming more demanding every year because of continuing construction and the organizational incorporation of new villages into cities.

The primary shortcoming is that, above all, the system of national committees does not use strictly enough its right of inspection and punishment in instances when illegal dumps have been discovered on their territory. Even inspections

of public order while resolving shortcomings in waste removal are not playing their controlling role. Nor are proper dumping techniques always complied with, even at administered dumps. A number of newly constructed dumps do not meet all construction specifications, nor do they comply with the operating regulations for dumping. Only with difficulty are the resources provided for the equipment necessary for removal, as well as for the further processing of wastes. Shortcomings are also being found at territorial planning agencies in the determination of sites for the dumping of public wastes and wastes from the production activities of economic organizations.

Inspection agencies should focus their attention on the following areas:

- 1) how the authority of the national committees to arrange for waste removal is being utilized;
- 2) the field inspection of the incidence of illegal dumps and following through on requests to eliminate them;
- 3) whether at managed dumps the conditions specified by methodological guidelines for the management of dumping operations are being complied with (these have been published by the Ministry of the Interior of the CSK);
- 4) whether the proper preconditions have been established and how the inspections of public order are being conducted when resolving problems with waste removal;
- 5) what the penalties are for illegal dumps and whether they are being levied;
- 6) how complaints and suggestions of citizens related to the removal and disposal of wastes are resolved;
- 7) what equipment is being provided for both the removal and the further processing, where applicable, of wastes;
- 8) whether the construction of dumps, right from the approval stage, meets applicable construction conditions and the operating standards of dumping practice;
- 9) how organs of territorial planning provide opportunities for the dumping of municipal wastes and wastes from the production activities of economic organizations.

Protection From Noise

When noise intensity exceeds the level of 65 decibels unfavorable physiological consequences become evident in the human organism. Current practice generally confirms that noise conditions particularly in the vicinity of existing as well as new roads often exceed the lower limit for noise due to growing motorization and its consequences, including the passing of vehicles not well designed from a noise perspective and the traffic loads at certain

places and/or at certain times. Another reason for the continually increasing noise level in the environment is that noise restriction specifications are not always adhered to in the design of new equipment. This is also directly related to economically caused shortcomings, such as inadequate noise insulation of windows and walls. Resolving problems of this nature, however, significantly increases the costs of protecting against noise.

In the area of public health and particularly in relation to the protection of the health of individuals against the unfavorable affects of noise and vibration, a special role is played by hygienic service agencies, which are responsible for state professional monitoring in this sector, along with national committees. It is primarily the national committee that must actively assert itself in territorial planning with reference to state administrative organs, as well as preproject and project documentation for the construction and reconstruction of facilities with effective measures against excessive noise, including the design preparations for road construction projects. They must also actively participate in the actual implementation of construction work, the actual operation and maintenance.

In inspections directed at protection from noise it is essential to focus the attention of the inspecting agencies on the following areas, with the effective cooperation of hygienic services and inspections of public order by the Office of the Transportation Inspector and Public Safety officials:

- 1) whether producers are delivering equipment which meets the acoustical conditions specified by guidelines and whether product users are fulfilling the conditions of installation and assembly, including construction and spatial requirements, and service and maintenance instructions related to noise protection;
- 2) whether within the framework of the approval of territorial planning documentation responsible decisions are being made concerning the organization of a given territory in accordance with hygienic requirements for housing project infrastructure, including the effective resolution of transportation, observation of the requirements for noise protection, vibration and the other harmful effects of transportation;
- 3) whether or not acceptable noise levels are being exceeded at construction projects related to housing or public infrastructure;
- 4) the monitoring at the predesign and design stages of road construction projects of whether the proposed route moderates the negative impact of transportation and whether the justified requests of the hygienic services for the arrangement of effective types of antinoise measures are being accommodated;
- 5) the monitoring during the course of construction, not only of roads, of compliance with prescribed technical procedures and operating instructions for the equipment being used, and particularly the noise levels of construction machinery. This includes the tuning up of automotive vehicles and all utilized machinery to minimize noise levels as well as the pollution of the air with exhaust gases.

Concern for the Home Environment

The development of urbanization is closely related to the enhancement and protection of the environment. With the passage of time the consequences of inappropriately planned, unmanaged and haphazard urbanization often become evident. A number of these consequences are evident not only at locations of housing complex centers, but also in private investment projects. These in turn are related to the proper resolution of traffic issues, waste disposal, supply, reduced recreational possibilities, etc.

The law concerning territorial planning and construction regulations outlines the responsibility of the national committee system for the development and appearance of residential areas and for the condition of buildings. Control over the quality of construction is provided mainly in construction management such as that provided by a construction office, such as district national committees. In the form of building permits the latter sets binding conditions for the conduct and utilization of construction projects and arbitrates the objections of participants in management. The failure to comply with the regulations of the construction code is a crime and subject to penalties on the investors and/or against private individuals.

The construction process is strongly influenced by the living, working, natural and recreational environment. The byproducts of the construction process (noise and vibration, dust, pollution, and the destruction of greenery, etc.) exert a negative influence on the psychological and physiological condition of our citizens, not only during the local construction itself of apartment houses, sewage systems, water mains, road construction, construction of heating plants, but also in raw materials centers, for instance, in the vicinity of concrete plants, quarries and the like.

To resolve certain problems of the urban environment the CSR Government has adopted a number of binding measures, including measures to increase the cleanliness and order in cities, to improve the quality of public services provided by national committees, to dispose of solid wastes, and others. It is a fact that so far there has not been a radical change despite the expenditure of substantial financial resources. For instance, on the provision of public services alone about Kcs 2 billion is expended annually, which in a number of instances does not correspond to the quality of the service provided. Shortcomings persist in the cleanliness and maintenance of urban streets. In particular, the sides of the roads in housing complexes are not cleaned regularly. This occurs for technical as well as personnel-related reasons, but also because of the large number of parked automobiles (some of them have not been drivable for some time, the so-called derelicts). Significant shortcomings persist in the collection and disposal of urban wastes, in the utilization of public spaces for construction projects, in public lighting, in the identification of streets and public spaces, etc.

Concern for the public infrastructure, such as shops, schools, public health facilities, etc., is not being provided for in a number of instances either organizationally financially or in terms of available facilities in ways consistent with the principles of urbanization and long-range habitation and so as to assure optimal conditions for improving the living environment.

The contemporary era demands the responsible consideration of the cultural value of monuments, the necessity for their preservation and further utilization in connection with the economic demands and effectiveness of resources expended on their maintenance and repair. Owners of cultural monuments are required to use their own resources to care for them. Nevertheless, the situation in the renovation and maintenance of cultural monuments is not satisfactory. There are many reasons for this, beginning with a lack of financial and construction material resource availability, right up to problems with finding reliable labor. The postponement of repairs leads only to higher costs later on. So far there has been no improvement, despite the creation of specialized crews for the repair of monuments. The same shortcomings are evident in restoration requirements.

The fundamental directions of inspection activities related to the monitoring and above all establishment of measures to foster more comprehensive concern for the environment should be:

- 1) whether construction projects proceed according to the principles of territorial planning, whether construction regulations are complied with, including the inspection of the fulfillment of issued building permits, and especially compliance with its conditions during construction;
- 2) whether owners of the housing stock concern themselves with the proper appearance of buildings and housing projects, whether and how maintenance is carried out on both the housing and nonhousing stock;
- 3) how comments and suggestions from citizens are acted upon in the area of cleanliness, lighting, waste disposal, and how effective any measures taken may be in resolving the problem;
- 4) what the possibilities are for the construction of decorative pools and fountains, the utilization of contiguous areas for recreational and sporting purposes, and how hygienic issues are to be resolved, particularly in terms of the protection of the air, water and soil;
- 5) the status of plan fulfillment for maintenance, reconstruction and renovation of cultural monuments, what the results of the work of employees of the urban inspectorate of public order are.

Concern for the Work Environment Is Dominant

Every person spends one-third of his time during his active years in a working environment. When viewed in these terms, the work environment is the most fundamental factor in the overall environment. The level of the

work environment is directly influenced by the spatial location and outfitting of individual worksites, climatic conditions, the active influence of all components of the environment beginning with the air, water and noise, and ending with greenery inside plants and enterprises. An important component of the work environment is the level of the social and the hygienic infrastructure, including individual health requirements, recreational opportunities, and the creation of a favorable impact of the work environment and work activities on the health of our citizens.

The modification of the work environment and its systematic improvement is more and more connected with the environment in the vicinity of the workplace and its incorporation into habitation units. Enterprises and organizations are required to see to it that work rooms, along with nonwork and resting areas, machinery, equipment, techniques and the organization of work fully correspond to the natural abilities of workers. If it is impossible at workplaces to eliminate harmful influences on health, the management is required not only to assure protective equipment and clothing, but also to introduce changes in working hours. Furthermore, it must systematically monitor, measure and evaluate every harmful influence and correct them. It must systematically monitor and evaluate the health of employees working in hazardous operations and sectors.

Compliance with the requirements of work hygiene is important as well in designs for the construction or the reconstruction of worksites. In all instances it is essential to require binding rulings from okres or kraj health officials.

A hygienic service is active in every okres in close cooperation with the pertinent divisions of the okres national committee. They provide binding rulings on proposed territorial plans and on a number of investment projects, on limitations to the zone of hygienic protection, the possibility for utilizing water flows to supply potable water and process water as well as for the use of fishermen and for recreational purposes. Moreover, they provide and administer hygienic inspections and issue binding directives for eliminating existing problems, administer and assure measures against the occurrence and spread of communicable illnesses, occupational illnesses and the like.

The assurance of work safety is one of the basic conditions of a work environment. The prevention of accidents and occupational illnesses is acquiring special importance.

Inspections in the area of improving the work environment must be focused primarily on the following:

- 1) the method for the concrete development and evaluation of task fulfillment related to the social development plans for workplaces and fulfillment of plans of treatment measures;
- 2) the merger of resources and facilities to assure concern for the work environment;

3) carrying out the resolutions of inspections of the hygiene and above all the safety of work.

Conclusions

The basic problems and main inspection criteria which legally define and govern the optimal state of environmental protection are well known. They in no way imply indecisiveness or willingness to tolerate reality. This is indicated by CSR Government Resolution No 58/1982 regarding the program of concern for the environment for 1982-1985.

The Set of Primary Measures in the Area of Environmental Concern adopted by the government is made concrete by specific tasks for specific years, including measures adopted in planning mechanisms to manage the development of the environment in heavily damaged areas, in research and the systematic management of long-range principles for the enhancement and protection of the environment.

The above-mentioned governmental resolutions likewise confirm the call of the CSR Government and of the Central Committee of the National Front of the CSR for concern for the environment. The final content of the adopted exhortation only serves to emphasize the necessity for a more activist, focused, and national (in the true sense of the word) program to protect the environment.

"Let everyone become an active participant in the improvement of the environment and the protection of nature. Ecological thinking must be incorporated into the conduct and dealings of all of us at the workplace, at home, during our moments of rest, in short at every step. Let each of us contribute through his work to concern for the environment as an inseparable component of a happy life. Let us contribute with our experiences, interest, and the activity peculiar to our nation to a situation in which nature is continually beautiful, and serves as a renewable source of life, a contributor to health, refreshment and comfort of the person. We are all concerned with the retention of the beauty of nature and the countryside and all of its riches in the Czechoslovak socialist homeland not only for us, but for future generations as well."

The system of inspection agencies wants and will help to make this happen.

9276

CSO: 2400/377

PROBLEM OF LAND USE FOR GRAIN, FODDER CROPS

Bratislava NOVE SLOVO in Slovak 12 Jul 84 p 1,5

[Article by Julius Nadved: "We Need a Guaranteed Harvest"]

[Excerpts] Grain production is one of the most advanced branches of crop production in our country. We justly began to compare it with that of prominent grain producing states about 10 years ago. Since then, however, we have registered only insignificant progress in this key branch, which is of decisive importance for our effort to attain self-sufficiency in basic foodstuffs. Yet, several other socialist states have caught up with our previous lead, while EEC states, for example, still maintain their higher standard. True, the weather since mid-1970's has been less favorable for grain crops in our country, but the long-term stagnation in the yields per hectare has been caused by other factors as well -- generally speaking, by the stagnation in the standard of agricultural equipment, which is contingent upon the given material-technical and human qualities.

Views have clashed on the sowing areas of grain crops for a long time. In practice the critical attitude prevails that the planning authorities want to ensure crops by assigning larger areas to grain crops, which in turn allegedly impoverishes the fodder base. The facts, however, are that arable land in the SSR has been reduced primarily at the expense of grain crops. While we harvested grain crops from the area of 898,600 hectares in 1970 and 890,200 hectares in 1975, it was only 832,200 hectares in 1980. Although the average harvest area of grain crops increased to 846,600 during the 1981-83 period, the plan targets were not met. In other words, the long-term slight increase in yield per hectare to a considerable extent compensates for the reduced sowing area and is not significantly reflected in the overall production. Average annual grain production in the SSR amounted to 3.25 million tons in the Fourth 5-Year Plan (1971-1975), 3.51 million tons in the Sixth 5-Year Plan and 3.55 million tons during the first 3 years of the Seventh 5-Year Plan (with the plan target of 3.8 million tons).

To maintain the present level of consumption of basic foods, especially meat, it is necessary to harvest from the fields 11.2 million tons of grain statewide, including 3.8 million tons in Slovakia. These quantities should be sufficient, if 15 million tons of quality bulk fodder are produced

statewide and 4.6 million tons in Slovakia alone.

We have already experienced the complexity of problems that we would face if the crop harvested were substantially below the plan targets: in recent years livestock production has depended to a considerable extent on the unplanned imports of fodder grain obtained partly on expensive credit, partly because imports of other goods and equipment were reduced and partly because exports of certain goods which were in short supply on the domestic market had to be increased. It was, however, by no means easy to cope with the consequences of small grain and fodder harvests through the reduction of livestock production and regulatory measures in meat consumption -- with all negative repercussions for the economic results of agricultural enterprises and general stability of the food market.

From the beginning of this year agricultural enterprises have been offering more meat than provided for by the plan and have criticized the meat industry as well as the central authorities for not securing sales of slaughter animals and for wasting fodder on preservation allowances. While according to the plan the purchases of slaughter animals in the SSR are to be increased 2,800 tons per year, the purchases of slaughter animals above the plan amounted to 26,300 tons, including 14,400 slaughter pigs as of 20 June. Less known are the troubles created by the problem of where to store this temporarily increased production in view of the limited capacities of freezing plants. Even more important is the fact that in many instances fodders have been spent which should have been saved for increasing the fodder supply of compound producers and agricultural enterprises. Not all managers of agricultural enterprises and agricultural administrations have sufficiently realized that the principal task now is to create conditions for the planned production of meat and milk not only by the reproduction of animals, but primarily by increasing their own sources of fodder, including appropriate reserves that would ensure the stability of livestock production despite the smaller harvest and without unplanned imports of grains. While the domestic production cost per ton of grain amounts to Kcs 1,400, we pay Kcs 2,600-2,700 in foreign exchange for a ton of imported grain for fodder at the present time. It is not insignificant that high-quality meat can be sold only with a 40-45 percent loss on foreign markets. Also for this reason it is imperative to regulate more consistently livestock production and fodder consumption in accordance with the plan and not "according to the possibilities" of agricultural enterprises in the herds of animals, because when they lack fodder they ask for allocations from the central reserves.

Grains have been sown on the area of 863,000 hectares in Slovakia this year. Due to the bad overwintering, winter wheat and barley had to be plowed out on an area of 22,000 hectares this spring. It must be appreciated that this production loss was partly compensated by sowing corn for grain on an area 15,000 hectares larger than last year. More wheat than anticipated by the plan remained on root, while the area sown with barley is smaller.

If grain production in the planned volume is to be achieved, the average yield per hectare in Slovakia must be 4.4 tons. After the record crop (4.2 tons per hectare) in 1974 such yields were reached three times -- last in 1983, when the deficit in grain production in comparison with the plan resulted primarily from the smaller harvest area. Whether or not these peak results will again be reached will be decided during the remaining days and weeks of grain ripening, by the scope of losses during the harvest, but also by the extent to which corn originally intended for grain will be shipped to granaries or stored in the silage dens as a substitute for bulk fodder.

Even when the results are publicly evaluated more attention must be paid to the quality of grain. The price of 1 ton of wheat for food is Kcs 1,800, which is approximately Kcs 200 more than the price of other wheat. The base price of first-quality malt barley is Kcs 2,300 and can be increased by the supplementary quality premiums. Economic tools thus help to reimburse the increased cost of production and postharvest treatment of quality grain properly. In the case of malt barley they compensate for somewhat smaller harvests which may be caused by the strictly regulated nutrition of young plants with nitrogen. Even despite the low prices on the world markets at the present time 1 ton of quality malt (1.3 tons of barley) can fetch approximately Kcs 3,800 in foreign exchange. Likewise, a potential surplus of wheat for food can be advantageously exchanged through foreign trade for fodder grain. What is involved here are not foreign trade effects alone, but also the quality of flour and flour mill-bakery products, beer and quality of grain as the key components of fodder compounds.

When, according to preliminary prospects, the harvest operations get into full swing in southern Slovakia from Bratislava to Zemplin approximately at this time, in mid-July, there will often be less room for information on how hay barns and store houses are being filled with bulk fodder. The above-mentioned 4.6 million tons of bulk fodder, however, are to supply as much as 52 percent of planned needs of nutrients, in other words, more than grain for fodder.

10501

CSO: 2400/390

PLANNING OFFICIALS EXPLAIN TIMING, GOALS OF REFORM MEASURES

Budapest TARSADALMI SZEMLE in Hungarian Nos 7-8, 1984 pp 27-39

[Article by Miklos Pulai, first deputy chairman of the National Planning Office, and Ferenc Vissi, department head, National Planning Office: "In the Midst of Work; Tasks and Problems in the Practical Development of Economic Guidance"]

[Text] At its 17 April 1984 session, after several years of preparatory work, the Central Committee of the MSZMP defined the tasks for a further development of the economic guidance system. The stand taken by the Central Committee provides appropriate political orientation for the development of every important element of the economic mechanism in the few years before us. On the basis of the stand taken the Council of Ministers published detailed professional guiding principles and a work program which served as a basis for working out concrete rules and deciding on the introduction of the guidance changes.

The policy message of the stand taken by the Central Committee and of the Council of Ministers documents, providing a guide for practical work, can be summarized as follows:

- The functioning of the economic mechanism introduced in 1968 proves that the general principles defining socialist property relationships, plan management and the fundamental economic guidance methods are still valid;

- The tasks standing before the national economy in the 1980's and the international economic conditions alike make necessary substantial changes in the methods of economic guidance so that the Hungarian economy can correspond to the trends of international development and create the economic resources laying the foundations for social development;

- The economic policy goals and the economic guidance tools must be in closer harmony than ever before; otherwise the economy as a whole will not be capable of exploiting the possibilities arising in the economic arena, which has a narrower scope compared to earlier decades. A suitable harmony of the system of goals and tools could represent a growth factor not sufficiently exploited thus far, which could play a significant role in exploiting and forcing the generally formulated efficiency reserves.

Working out the details of the economic guidance changes took place parallel with—and in concert with—the development of an economic policy conception for the Seventh 5-Year Plan. Work done thus far has outlined the possible directions of economic policy in the years 1985-1990, the possible scope and character of social and economic policy. With great probability we can calculate that as a whole the external conditions influencing the development of the national economy will not improve perceptibly. As a result of this the driving forces deriving from a change in internal conditions and circumstances will determine fundamentally the possible development.

The analyses reviewed the entire process of economic guidance from the viewpoint of creating conditions for enterprise operations with an entrepreneurial attitude. In the interest of this the guiding principles of the government also defined in a fundamental way the changes which were considered necessary in the economic regulator system, in the capital flow mechanism, in the enterprise leadership forms and in several areas of central governmental guidance. The essence of the further development directions and proposals developed is that:

—we should increase enterprise independence on the basis of greater interest and greater assumption of risk;

—we should broaden the effective sphere of a regulated market mechanism; and

—we should strengthen the effectiveness of governmental guidance in the processes that fundamentally determine the development of the economy, and in the interest of this we should modify its sphere of tasks and the system of links it has developed with the enterprises.

The proposals express the higher level of requirements necessary for improving the quality factors for management and make it obvious that the owners of income should have a share only of what is realized on the market (income and losses), and on this basis the frameworks of spending must also be determined. A socially undesirable reordering of income ratios at the macrolevel can be avoided only if at the microlevel (among managing units, plants and employees) there is a reordering of incomes according to efficiency and performance expressed in realized results. The stand taken by the Central Committee calls attention to the fact that this reordering will not be free of tension, since in some cases it will change the fixed order of values. The stand also stresses that a differentiation of incomes according to performance is dictated not only by our economic interests but also by our socialist principles.

The 1985 Changes and the Development of Economic Guidance

In the course of the preparations there were debates about whether it was possible to introduce the planned changes—or a significant part of them—under circumstances in which the external conditions were much worse than they were in 1968. More than once in recent years we have been forced to control certain economic processes "by hand," which necessarily reduced the role of market methods and normative regulators. It is also certain that we cannot entirely

liquidate the "market alien" methods in the short term. The debate is not concluded even now, but guidance changes are absolutely necessary to create the resources which will make development possible. One can define those measures which will result in an improvement of market relationships and management conditions, and parallel with this will make it possible to put an end to, or replace with normative regulators, the administrative methods introduced in past years, primarily the resource withdrawal or resource regrouping measures affecting the more profitable enterprises. In essence, the stand taken by the Central Committee was also formulated in this spirit when, simultaneously with announcing the further development, it stressed the importance of introducing the necessary measures as soon as possible.

The ideas for a further development of economic guidance contain two sorts of scheduling considerations:

—the majority of the proposals aimed at a further development—primarily the elements directly affecting interest relationships—must be introduced in 1985, or the realization of them must begin then; and

—the other proposals serving a comprehensive further development must be realized during the Seventh 5-Year Plan.

Thus, putting into practice the ideas pertaining to a development of economic guidance requires continual activity over several years. What is more, the earlier measures corresponding to the spirit of the further development must be conceived of as part of this process. Thus, the planning development decisions are already being realized in 1984, in the work being done for the Seventh 5-Year Plan. Within the framework of the regulator system, changes—in some cases experimental—have begun in the producers' and consumers' price system, the regulation of earnings and the regulation of enterprise income. A modernization of market organization, a review of enterprise organizations and carrying out the necessary organizational changes are under way.

We should regard 1985 as a focal point in the further development and we are taking a number of coordinated measures. Some of these pertain to the conditions for enterprise management and will affect primarily elements of the economic regulator system; others regulate the link between enterprises and state administrative guiding organizations, with attention to the new enterprise leadership forms.

In 1986 the magnitudes of the regulator system must be adjusted to the requirements of the Seventh 5-Year Plan. The processes already begun in price, earnings and income regulation and in disseminating the new enterprise guidance forms must be continued. We will introduce a modernized system for council and budgetary institution management.

On the basis of studies made in the meantime we must work out a proposal pertaining to personal income taxes and the changes linked with this: in earnings regulation, social policy tools and council regulation. Similarly, we must work

out a proposal for possible changes in the normative turnover tax system and for increasing the role of property interest. The time for the introduction of the new tax system will be determined by a later decision, but we are organizing the work so that in the event of a positive decision the proposals can go into effect in 1987.

In what follows we will describe, concentrating on a few stressed questions, the economic policy and guidance system linkage of the concrete changes which may be realized on 1 January 1985, the problems which will arise and the tasks to be solved.

Development of the Price System

The conception for the development of the guidance system posits as a goal the gradual buildup and introduction of a competitive price system. It is a general requirement, and also a possibility, that the domestic producers' price of goods and services actually or potentially participating in international trade should move freely—as a function of enterprise agreements—between the export prices and the import prices, increased by duties. There are many conditions for the development of a competitive price system. Perhaps the most essential of these is that for its effective operation one needs strong markets relationships, a dynamic balance of supply and demand, and both domestic and import competition. For this reason we will maintain temporarily the restrictions of an administrative character in the regulation of prices in those areas where and as long as a competitive situation has not developed. More precisely, we will use a price system corresponding to a simulated market in these areas. Even with all its deficiencies we consider this better than an autarkic, authoritative price system forced to recognize every expenditure without criticism.

An important goal of price policy is to moderate the inflation which has developed in recent years. The pressure of inflation is significant in the economy. From the viewpoint of price policy it is of special significance what sort of system the regulators constitute, whether they are in harmony with one another.

We feel that it is primarily in the policy for industrial producers' prices that there is a possibility, within a short time, for gradually narrowing the sphere of the so-called simulated competitive prices and converting to a price regulation leading to real market prices. We must implement this along with a consolidation of the balance of supply and demand; that is, we will gradually reduce the administrative prescriptions for price generation.

In the construction industry the precondition for a broad spread of the competitive price system is a further development of the organizational system of the construction industry, creating real and actual entrepreneurial conditions. An important goal in the infrastructural areas is to strengthen the commodity character of management and to increase the role of profit interest, which can be expressed in many forms. In the majority of the infrastructural trades interest is necessarily supplemented by certain supports, which make appropriate financing of developments possible. We also consider it important that if costs rise for objective reasons then the price mechanism should make possible an expression of the cost increases in the prices, making it possible to reduce supports as well. We are presuming that the interest in reducing expenditures can be improved significantly and that this may put a brake on the need to increase prices.

The realization of the proposals pertaining to the price system is linked directly to the problem of inflation. Looked at in the longer run, inflation has two general causes of fundamentally economic origin. One is the existence of a deficit economy and the other is inefficient work. Other factors also may produce inflationary pressure in the short run—for example, import becomes more expensive, the terms of trade worsen, expenditures increase due to a deterioration in extraction conditions, strongly progressive taxation, certain technological changes in the period when expenditures per unit of production increase and their effect in saving expenditures has not yet appeared, etc. This short-term inflationary pressure can cause significant problems, too, but it is obvious that basically we can make progress in reducing the inflationary pressure to the extent that we eliminate shortages or create a mechanism which hinders to a large extent the recognition in prices of expenditures for inefficient work. Naturally the long- and short-term processes cannot be separated from one another.

It is also the experience of the past 15 years that profit interest is not intensive enough in our economy or, which is the same interdependency from the other side, cost sensitivity is not sufficient, and the existence of monopoly and shortage situations contributed to the fact that cost increments are frequently recognized in the prices without market control or market criticism. The price system introduced in 1980 tried to keep the increase in prices within artificial limits that were established on the basis of a hypothetical market. We have also found in recent years that international competition in itself is not a panacea which would hold back or substantially reduce inflation or inflationary pressure. The significance of competition is not in holding back the price increases themselves without conditions, but rather in the fact that it stops the automatic handing on of costs, and thus forces the producer to conserve more of the increasingly expensive materials, to engage in technical development satisfying the requirements of economicalness, and in general to accommodate himself to the market requirements.

In every profit interest system an increase in the offerings of producers also depends on whether the producers make a profit on the basis of the profit contained in the prices. An anti-inflationary economic policy must first of all be able to harmonize the profit orientation of producers' supply (and, naturally, demand) with those rules which are called on to prevent recognition in prices of the costs of inefficient work.

In addition to all this, among the factors producing price increases or representing inflationary pressure, a role is played in our economy by a number of internal causes, in the mechanism, such as, for example, constantly increasing taxation, the deficiencies of the capital allocation mechanism, etc. The chief problem of the functioning of the unsatisfactory capital allocation mechanism is that it necessarily creates developmental—investment—possibilities even for enterprises conducting uneconomical activity, making possible their survival, in some cases even making possible expanded production by them. Thus far we have not been able to use in the economy a capital withdrawal mechanism which

would hinder the survival of uneconomical activities and force a reduction in such activities. We have the important goal of making progress in this area, both in central economic guidance activity and in the effects of the economic mechanism that increase economic constraints. Only this can accelerate the replacement of uneconomical activities with economical activities that pay off more quickly. This process could contribute to reducing the present inflationary pressure.

Raising prices cannot be avoided in our economy in the future, either, for there are objective reasons to do so. Holding back price increases with central tools is possible and justified only as long as this does not frustrate our fundamental economic policy goals. It must also be kept in view that we must reduce to the greatest possible extent the unfavorable effects which constant price increases have on social policy, that inflation has a negative impact in many respects. Out of economic considerations also there is a fundamental need to guide processes which provoke price increases so as to hinder a strengthening of the undesirable effects.

Economic guidance will make active use of budgetary policy to control the inflationary processes, primarily in the sense that by reducing supports it will make managers more sensitive to the effects of economic constraints, and secondarily in the sense that it will hold state spending within strict limits, making less and less possible the public consumption which today sometimes has a wasteful character. An essential role in the anti-inflationary policy will be played by using the possible tools of monetary policy and income regulation to bring the generation and spending of incomes at the national economic level into harmony with the possibilities of domestic use following from the balance requirements. Thus, in the exchange rate policy, which constitutes a part of monetary policy, there is a need to take into account the export-stimulating effect that can be realistically expected from the rate of exchange; that is, an unjustified devaluation of the forint, as international exchange, should not create a possibility for the generation of inflationary price profit and an increase in inflationary pressure. Only in this way can the rate of exchange—as one of the most important prices—contribute to the stability of the value of the forint as international exchange. The anti-inflationary tools also include the authoritative limits and prescriptions established in the price system and price mechanism, such as, for example, forbidding the realization of a domestic price higher than the import price, use of authoritative prices, etc.

An anti-inflationary financial policy is only a part—although an important part—of an anti-inflationary economic policy. In the interest of holding back or ending inflationary pressure we must take appropriate steps in the entire system of tools of economic guidance for the efficient operation of the economy, for in the final analysis it is from this that we can expect a weakening of the sources of price increases and inflationary pressure. Since inflation or inflationary pressure arises fundamentally in the production and trade processes, inflation cannot really be held back with supports given to consumption by the populace or by increasing the supports; at most it can be postponed or hidden, together with all the negative effects of this (a deterioration in quality, shortages, etc.). In addition, cover must be provided for the increasing price supports

with some sort of other tax, the source of which can be created in practice by price increases or by moderating the growth of incomes, primarily for those living on wages and salaries.

It is obvious that in our economy there are elements of inflation which cannot be eliminated in the near future, and there are factors which may increase the inflationary pressure temporarily. The development of economic guidance will reduce the inflationary pressure in that it urges a swifter development of efficient areas, making the inefficient ones efficient or eliminating them, or it will force this pressure back to a level which can be explained by the factors of inflation which cannot be eliminated. For example, we can regard the deterioration of the terms of trade as such a factor if, after the deterioration, a period does not commence in which the terms of trade improve.

Thus, the economic policy and financial policy behavior connected with inflation cannot be defined primarily by whether prices increase or not but rather by whether or not an increase in prices can aid an increase in supply resulting in improving the standard of living. If it does then the price increase is justified, for in this case the price increase is "contributing" to the elimination of one of the basic factors of inflationary pressure: shortages. So the tools of an anti-inflationary policy cannot be separated from the economic conditions, the developmental level of the economy and the economic policy adopted, and as a result the autonomy of this policy is relative in many respects.

The Chief Characteristics of the Development of Enterprise Income Regulation

The guiding principles of the Council of Ministers contain those most important and most comprehensive requirements according to which enterprise income regulation—including enterprise taxation—must be changed. We must solve tasks in several directions and with several goals. Our analyses prove that the social renewal costs of the labor force have increased significantly in the past decade, and this has not been expressed adequately in enterprise management. The relative undervaluation of live work offers an explanation of the paradox that despite the contracting of the social work time base the manpower management within the enterprises is of the extensive type. In order to create an interest and—to a certain extent—a constraint serving development of an intensive character or, to approach the question differently, in order to have the social expenditures of a renewal of the work force appear at the place of use, we must increase the enterprise costs and taxes connected with the use of live work, and we must moderate the withdrawals burdening the developmental fund, whereby it will be possible to reduce the tax burdens on accumulation and innovation both relatively and absolutely. The other essential requirement for the development of the tax system is formulated by the guiding principles when they state that along with the changes, insofar as possible, we should reduce the net income content and tax content of the producers' prices, which means that the collection of taxes must be shifted to a greater degree than at present to the phase of final use.

Reducing the net income and tax content of the producers' prices is an old problem of economic guidance. In the past decade a desire has been formulated several times that we should aid an increase in the intensity of profit interest

in this way. We analyzed conditions and methods for reducing the tax level of producers' prices several times in the course of the preparatory work. The analyses proved that this could be done only with a general authoritative adjustment of prices. The most essential authoritative price adjustment in the past 20 years were always tied to a reduction in the profit level of producers' prices or—as intended—to a reduction in the tax level of the producers' prices. Lacking a market price system we have not yet succeeded in implementing a mechanism in which the profit content of prices would not rise after the authoritative price adjustments. The situation is complicated by the fact that, along with this, in the course of operations the supports content and the tax content of the prices also increased. We have succeeded in making progress in reducing the supports content only in the past 5 years, and a significant price increase was the consequence of this. But we have not succeeded in reducing the tax level of prices; this shows a steady increase. There is no doubt that we used tools to achieve some important economic policy goals (for example, export growth) which led to the continual creation of inflationary price profits in a part of the economy; and the only practical tool to "neutralize" this was to increase taxes.

So the question is whether it is useful to carry out a general authoritative adjustment of producers' prices in 1985—and if so in what way—within the framework of which the producers' price level—including the tax level of the producers' prices—will decrease. Considering the tasks standing before us and the change in the character of economic regulation, we have a fundamental interest in avoiding a general adjustment of producers' prices in 1985. We feel that a regulation of enterprise buying power—necessarily a strict regulation due to balance reasons—could be realized only with great uncertainty (considering that it will be difficult to carry out a reduction in the price level in those areas where deficits might arise because of it); nevertheless, economic policy cannot dispense with a strict control of developmental buying power in 1985 (and with great probability in 1986).

Under such circumstances a shift of social net income from production to the trade sphere is obviously possible only to the extent that the support for consumer prices is reduced. This latter process is unambiguously subordinate to the standard of living policy of the years ahead, or to that magnitude of price increases which can be made compatible with the total price increase possibility as defined by the standard of living policy and the increase in the level of consumer prices which will follow from the increase in the producers' price level.

Thus, in 1985, in the course of changing the tax system, priority will be given to those proposals which realize changes in the tax structure corresponding to the guiding principles within the given producers' price level and which, if to a small degree, may increase the intensity of profit interest in that a larger part of the profit increment than at present will remain at the enterprise for those managing more efficiently than the average.

The basic regulatory conditions for ensuring a national economic balance have been outlined on the basis of the previous achievements of planning work for the years 1985-1986. According to these it will be necessary to increase to a

small degree the centralization of all income in 1985. In practice this means that for the time being we must maintain the present very high centralization of social net income; indeed, the security of regulation would make desirable an additional increase of a few percentage points or an increase in the willingness to save. So the chief question is how to make the changes necessary according to the general requirements of the guiding principles compatible with the regulation of buying power in 1985.

In order to reform the tax structure and satisfy the requirements of regulating buying power we must especially consider the following:

--As long as export must substantially exceed import we must increase the degree of centralization of the gross domestic product. This will ensure that an improvement in the external economic balance will also appear in domestic regulation, and not create the possibility that income coming from an active export balance will be spent domestically (in this case it would not be possible to adhere to the prescriptions pertaining to domestic use of the national income, and over-distribution might arise in the economy).

--In recent years, because of holding accumulation processes within the planned frameworks, we have strictly regulated accumulation buying power. This regulation has involved administrative limitations, special taxation of some accumulation activities and the withdrawal of a part of the enterprise development funds. All this together substantially increased the burdens of assets expansion, and necessarily had a significant leveling effect on the development possibilities of the enterprises (it was possible to make withdrawals only from those which had money). As a result, the indiscriminate character of regulation can be ended only if we do away with the present channels for withdrawal and if a tax of a normative character becomes the tool for income withdrawal of the necessary magnitude. A low and essentially uniform tax withdrawn in proportion to enterprise property should take the place of the various withdrawal methods used in the regulation of developmental buying power (construction tax, investment fees, withdrawal of developmental funds, amortization withdrawals).

--We would like to end the centralization of amortization as soon as possible. Analyses prepared in recent years prove that the rationality of assets management and the aspects of amortization expressed in returns would make it necessary for amortization to remain entirely with the managing organizations. It represents a unique problem that making live work more expensive, reducing the assets burdens, and ending the measures temporarily restricting developmental buying power must be realized--as we mentioned--by increasing the total income tax level; otherwise the basic balance requirements of the 1985 plan cannot be ensured.

--Increasing the wage contribution serves to increase the wage burdens, in addition to which the city and community contribution withdrawn in the present regulation proportional to profit will be transformed into a wage-proportional withdrawal. Such a change in the tax system--in the event of an appropriate setting of the tax rates--can result, taken as a whole, in making the use of live work more expensive and making relatively cheaper an expansion of assets financing innovation processes.

Calculations made on the enterprise level have shown that the proposed transformation of the tax structure will regroup enterprise incomes substantially. With this adjustment the situation of enterprises capable of dynamic development will improve while that of those with bad efficiency will become critical—presuming that operations remain unchanged.

—The realization of normativity can be made compatible with the objective peculiarities of the several areas or activities. For example, this harmonization is served by the fact that in agriculture the gross income carries the profit interest or if in other areas (we are thinking here, for example, of services) we establish different quantitative parameters for the regulators—in justified cases.

Changes in the System of Earnings Regulation

The goals of the further development of earnings regulation are to strengthen the interest of the enterprises in increasing productivity accompanied by specific costs savings, to permit enterprises managing more profitably and able to assume the tax burdens of wage costs to provide higher earnings to workers than enterprises which are less profitable, and to have changes in earnings be more and more a decision of management and of enterprise judgment, developing less and less within authoritative, administrative prescriptions. These general requirements can be realized if we eliminate from regulation, or restrict to a significantly narrower sphere, a determination of enterprise average wages or average earnings—causing many distorting effects—and put an end to taxation of such magnitude as to virtually prohibit increases in wages or earnings.

The role of regulation at the national economic level influencing real consumption and of taxation at the individual level (according to individual earnings) will increase in earnings regulation, and the role of the mechanism limiting the outflow of enterprise income will decrease. In the course of working out detailed proposals we are striving to see that an earnings regulation corresponding to the principles described here will function in a wider sphere by 1 January 1985. But it is obvious that the actual operational sphere of earnings regulation will be determined by the extent to which the guidance system is capable of operating the national economy according to the balance requirements, by the extent to which it ensures that the source of earnings and earnings increments is realized national income or extra national income, without permitting earnings to be increased from inflationary price profits.

One of the cardinal points of the debates which took place concerning the regulator system proposals was connected with the question of the extent to which the essential changes in the interest system should be based on ending price system restrictions and the extent to which they should be based on ending wage system restrictions. There is a possibility of choice in whether we should use a wage regulation less binding on enterprise management, together with strict price regulation, or the other way around, substantially relaxing the restrictions of price regulation while using strict regulators to limit an increase in earnings.

On the basis of consultations with enterprise leaders we decided in favor of the version which relaxes the restrictions of the wage system. It was the uniform judgment that earnings regulation restricts the enterprises more than price regulation. It also speaks for strict price regulation that the administrative brakes in the price system can be eliminated only gradually, to the extent that the supply and demand relationships make possible the development of a balance.

The essence of the new earnings regulation method proposed is that the enterprises will pay a tax out of their profits for every forint of earnings—thus not only for the increments. The tax must be calculated for individuals on the basis of the annual earnings of the worker—that is, not on the basis of the average wage calculated at the enterprise level. When determining the tax base at the enterprises one must combine the incomes paid out during the year under various headings. The magnitude of the tax should be determined from the viewpoint of a suitable harmonization of incentive and a profit requirement of the necessary size, so we are proposing a mildly progressive taxation.

Since in the proposed regulation a larger part from unit costs savings can be paid out as wages than at present, it is expected that interest in costs savings will increase. In this way the enterprises will be burdened with an annual tax payment obligation on earnings as a whole. The regulation will force those managing organizations that cannot pay this tax to make the enterprise more economical by modernizing production or decreasing costs. If the manager cannot develop such a program he must reduce personnel. So the proposed method will encourage the freeing of superfluous personnel, for it will eliminate the personnel dilution accompanying enterprise average wage regulation.

Changes in Enterprise Guidance and the Organizational System

In the course of the preparatory work we sought an answer to the question of whether the intertwining of ownership, economic guidance, authoritative and management tasks and their concentration in the ministries really followed from the essence of state property. We studied those possibilities which would properly separate and set in order the four types of tasks and functions mentioned from the viewpoint of the rationality of economic guidance. The analyses proved that the economic guidance and authoritative functions could be linked rather closely, and it was also relatively clear that these must be taken care of by the guiding organs. In the majority of the socialist countries in the past decade, and in our homeland as well, there have been changes in governmental guidance and in the link between economic guidance and enterprise leadership which transferred to the managing organizations a part of the decisions of an ownership character and made it relatively unambiguously the task of the managers to make decisions together with operational management. Along with this process the making of so-called basic ownership decisions remained with the economic guidance organs; these extended to organizational decisions connected with the enterprise, to the chief strategic decisions defining the activity of the enterprise and to the employer rights connected with the director.

With the enterprise law passed in 1977 the state enterprises were taken out legally from the hierarchic state administrative chain, and of the basic ownership decisions the business policy decisions affecting organization and enterprise strategy were transferred to the enterprise sphere. In the past 10 years, differentiated forms of property have developed (associations, joint enterprises, subsidiary enterprises, etc.), along with which the state administrative monopoly in founding enterprises has practically disappeared. In a number of cases there came into being an enterprise leadership with a dual structure in which the supervisory rights connected with ownership functions were separated from the making of operational management decisions closely interdependent with enterprise operations.

Research and analysis dealing with the link between economic guidance and enterprise leadership discovered deficiencies and contradictions in the present operational system. They called attention to the fact that the fact of founding an enterprise in itself is an undertaking, so the founder of the enterprise should have all the range of vision, responsibility and information needed for a decision concerning an undertaking. Sociological research showed that in the present linkage system the enterprise leaders were becoming public employees and officials, which held them back from entrepreneurial decisions in advance. The introduction of the competition system could not change this situation substantially, either. In recent years we have not succeeded in finding an unambiguous solution regarding how the economic guidance organs should have a say in enterprise management, the informal contacts remained broad, and the obscure content of the responsibility opened a path for direct transmittal of national economic interests. All this confuses the links between economic guidance and enterprise leadership. In addition, the present distribution of functions and tasks hinders the carrying out of the real economic guidance and authoritative tasks, so a review of the system of contacts between ministries and enterprises has become justified not only from the side of the enterprise leadership realizing the undertaking but also from the side of economic guidance.

The stand taken by the Central Committee and the guiding principles contain the development of two new types of enterprise leadership form in regard to the state enterprise sphere. For the smaller state enterprises (enterprises operating with an elected leadership) there will be a form of enterprise leadership in which we will realize the advantages of cooperative-type enterprise leadership; for the larger enterprises they will form enterprise councils as the organ to make strategic decisions. The essence of the latter proposal is that participation in the enterprise leadership will be institutionally guaranteed for the collective, which is also expressed by the intention to entrust the judgment of the director and higher leaders primarily to that collective which feels the effectiveness of the operation of the enterprise directly. Nor can we remain silent about our expectation that since this body will become the primary judge of the work of the director the chances will increase that really talented, creative and mature people will get into leadership positions. There is still a need in many places to raise the level of leadership and develop a highly trained leading stratum, for basically the effectiveness of the operation of the enterprise depends on this, the creativity of the collective depends on this, and to a large extent whether people work willingly (especially the talented ones) or perhaps flee from the enterprise depends on this.

The proposal also modifies the link between enterprise leadership and economic guidance. It guarantees to economic guidance—as an unambiguously declared right—legal supervision over the proper functioning of the self-government organization; in the sphere of market supervision it makes possible the governmental intervention made necessary by national economic interests. According to the present system, the ministries must provide professional authoritative supervision and the state administrative founding organs can exercise the right of approval in questions affecting substantial organizational transformation of the enterprises and in appointing the director.

The new type of regulation of contacts between economic guidance organs and the enterprises is also expressed in the fact that the supervisory function in the present sense will end with regard to the enterprises operating with the new guidance, and in the course of exercising legal supervision the branch ministries do not receive the right to have a say in the management processes. At the same time this system makes it necessary for guidance to provide strict regulation, which will transmit national economic interests to the managing organizations with suitable intensity. The central market supervision organ will play a greater role in market organization, market regulation and averting market disturbances.

Time will be needed for the effective operation of the new enterprise leadership forms. The proposal presumes that interest harmonization will be realized not via hierarchical contacts but rather in contacts of equal ranks due to the interested parties' mutual reliance on one another. To accomplish this we must establish relationships within the enterprise and in the enterprise leadership structures which will create a balance of the power to realize interests and make unambiguous—following from the essence of the enterprise council—the necessity of cooperation between the leaders and the collective. The proposal also presumes that the decisionmaking spheres will be readjusted within the enterprise—in accordance with the requirements for the functioning of the enterprise council—and that performance differences will become visible and obvious in the accounts providing a foundation for the internal interest system. As a result of all this a suitable interest will support factory democracy. We also want to indicate with all this that primarily at the time they get started the new enterprise leadership forms will provide the possibility of transforming in a favorable direction the relationship of economic guidance and enterprise leadership and the interest system within the enterprise.

This year, the governmental organs will make those decisions which will regulate the functioning of the new type enterprise leadership and according to which the necessary changes will be carried out in state administration and in the division of labor among the several organs. According to the thinking, detailed regulations will be published in the fall of this year and the interested branch and functional guiding organs, in conjunction with the Chamber of Commerce, will work out preliminary proposals regarding the introduction of the new enterprise leadership forms and a schedule for this.

Together with the development of the new enterprise leadership forms, there will be a modernization of the enterprise organization. In the processing industry, primarily, there is a need for economical conditions for cooperation and for the creation of enterprise linkage and organizational forms corresponding to optimal plant size. Judging this is basically the task of the managing organizations, so the governmental guiding organs are counting on creative behavior which will define the main direction for a transformation of the organizational system on the basis of enterprise interests. The governmental organs are continually reviewing the present forms of the innovation and trading chain and in justified cases will make recommendations for changes. The basic goal of this organizational transformation is that organizational size and the necessary capital concentration should come into harmony in a relatively brief time—at least in the areas producing consumer goods. Expanding the forms for capital flow and the simultaneous organizational transformation will make it possible for the development of optimal organizational forms and the concentration of capital tied up in production to be separated from one another (or linked to one another) rationally, so that the enterprise organizational system and multiplicity of cooperation forms might develop on the basis of interest in the process of management. All this is needed for the organizational restrictions not to hinder economical activities.

Within the framework of this article it has been possible for us to touch on a few components of the further development of economic guidance, and we have tried to select the most timely elements. The stand taken by the Central Committee also called attention to the fact that after well-founded preparation the conceptionally uniform mechanism development proposals can be introduced gradually, because we must take into consideration the ability of the economy and society to receive them and the magnitude of differentiation which will follow.

Some of those who fear for the reform process frequently refer to the dangers and dilemmas of gradual realization. In their sceptical observations they emphasize that the character of the changes may be lost in gradualness, and in this case the changes will do more harm than good to the economic mechanism. From this judgment comes the opinion according to which the proposals should be introduced urgently, virtually at one blow, so that these changes will bring results as soon as possible. The danger in this basically positive approach is that impatience could lead—because of the uncertainty of certain conditions—to serious balance disturbances and undesirable consequences. For example, the strata of society affected could not tolerate without rather serious disturbances (according to our present judgment) a sudden and significant reordering of incomes. On the other hand, the "risk" of gradual realization is that the processes might slow down, which would reduce the conflicts coming to the surface at a given time but would also delay the unfolding of positive effects. The real danger then is that a reflexive retreat might get started to avert the conflicts—there have been several examples of this already—which, judged after the fact, has always harmed the reform process.

Together with all this it is obvious that certain compromises have to be made with regard to the proposals aimed at a further development of economic guidance and the changes to be put into effect in 1985. The political effort to have clashes of interest resolved at the level of those involved insofar as possible will decrease the risk of a retreat. This is why the guidance changes contain proposals which attempt to resolve conflicts of interest at the place where they arise.

It has frequently been asked recently when the proposals will bear fruit in a way that can be felt. In this connection we would like to call attention to the fact that economic guidance is counting on the guidance proposals to have a positive effect on economic growth and on the resources which can be spent, but it is obvious that the positive effects cannot be felt in general, because of the differentiation among enterprises and earnings. We would also like to emphasize that the proposals as a whole also count on changes in social, sociological and moral factors, the effects of which obviously will not appear from one day to the next. It is enough for us only to note that an improvement in work discipline cannot be attained by regulations alone; this will also require the occurrence of the social effects mentioned. Thus, the effects of the continuation of the mechanism reform that can be classified as positive by the great masses of society will manifest themselves with the summing up and projection onto one another of the social and economic results.

8984

CSO: 2500/558

ECONOMIC CONSOLIDATION, DEVELOPMENT POSSIBILITIES DISCUSSED

Budapest GAZDASAG in Hungarian No 1, 1984 pp 25-41

[Article by Rezso Nyers scientific advisor, Institute of Economics of the Hungarian Academy of Sciences and Marton Tardos scientific department head, Institute of Economics of the Hungarian Academy of Sciences: "The Necessity of Consolidation and the Possibilities of Development"]

[Text] Today we can already clearly see that toward the end of 1970 the Hungarian national economy had reached the outer limit of a 2-decade long development period; moreover, in a certain sense it had even "run over" that limit, for during the last 4 to 5 years it had been growing along a course which had no continuation into the future. We have succeeded--after a period of several years of hesitation--in adjusting our economic policy to the given realities, and in keeping unbalanced growth under control. It was our economic policy, of course, which changed first and to a greater extent, followed by a slower and partial change in practice and by a simultaneous gradual adjustment to our various socialist and non-socialist foreign markets which is still not satisfactory. The 1981 crisis in international credit relations has meant yet another blow to our already hard pressed national economy. Actually, while the economy has reached a kind of pre-crisis state, our political situation has remained stable and calm, and our economic management has proven to be fit to act.

Bringing Indebtedness to a Halt

Since 1979 the general goal of our economic policy has been to accomplish three tasks: first, the consolidation of our foreign economic situation; secondly, depending on the first, the preservation of our political stability and confidence; and thirdly, depending on the first two, the charting of a new course of growth. While all three tasks are equally important to accomplish in terms of priority, the first two have been undoubtedly more pressing than the third one, especially if we look at the situation 3 or 4 years ago. The difficulty level of each of these three tasks is significant in itself, and they have been made even more difficult by the determining role of the time factor. Still the greatest cause of

difficulty has been the fact that these three tasks are interdependent, and that as such they hinder one another in the process of realization which is due to the existing situation and the methods that are allowed to be used. Our temporarily imposed involuntary import restrictions and investment cutbacks have hampered the charting of a new course of development, and, by stressing the importance of efficiency, the latter has inevitably tested the political stability of our microeconomic sphere, and it has also not been uncommon for interests in maintaining political stability to put a damper on these two economic processes. However, we must emphasize: even though the task is both sensitive and difficult it can be accomplished.

We already have 5 years behind us since January 1979, so we are able, on the basis of frequently recurring economic processes, to analyze the favorable facts and our accomplishments, and to compare them against certain unresolved old or problem-causing new phenomena.

The areas where favorable facts can be noted include those important questions which have been given top priority, and in some cases we have also found properly targeted central initiatives that are expected to directly promote the future development of our economy. Here is a summarized list of our economic successes:

The serious imbalance of our foreign trade equilibrium has been eliminated, its global balance has been reestablished, and the balance of our two main market and clearing relations has begun to show a favorable picture. While in 1978, 78 percent of the value of our total imports was covered by our total exports, by 1982 and 1983 this ratio improved to 100.5 percent and 102.5 percent, respectively. Despite our increasingly more difficult circumstances and deteriorating exchange ratios, during this same period the export cover of our imports increased from 70.4 to 115 percent in our convertible currency relations, and from 88.9 percent to 92.5 percent in our ruble turnover.

During the critical year of 1982-1983 we succeeded in preserving the international solvency of our country, in spite of the fact that our foreign trade conditions had deteriorated and that our debt-repayment obligations had increased by more than 25 percent.

The balance of our state budget has improved every year, and by 1983-1984 the ratio of revenues and expenditures has become virtually even. Despite the fact that, the above notwithstanding, the budget is still plagued by serious organizational and management problems and that this improvement has not meant that all of these problems would be solved, the result is a fact.

Our efforts aimed at preserving the standard of living and at possibly improving our living conditions can be said to have been

basically successful. Although questions have been--and indeed can be--raised regarding the success of our efforts to preserve the standard of living which we attained on a social scale in the 1970's, the living-standard safeguarding character of our economic policy has been unquestionable, despite some recurring, unpopular measures. There has been no discernable deterioration in our living conditions, in fact, looking at our population as a whole the housing situation and several services have actually continued to improve. In view of the serious economic difficulties that have been threatening our standard of living this appears to be a considerable accomplishment.

Our economy's ability to perform has also shown some good signs. Significant results have been achieved in the area of energy savings, in reducing specific material use and in making economical use of waste materials.

The changes have already been somewhat affected by the fact that the enterprise organizational system of the socialist sector has begun to show an improving tendency, and that several artificially centralized big organizations have been broken down into their natural units and have been forced to perform more efficient and better work. With the elimination of our previously overly dismembered system of industrial management a unified industrial management organ has been created, offering the possibility of a better industrial policy and management. The permission and encouragement given to the establishment of various types of small business, and their incorporation into a state regulatory framework have represented a very important step from the point of view of ensuring national economic efficiency and employment in the future, and in terms of improving our living conditions.

In addition to our efforts at home, foreign economic diplomacy has also been given an increasingly important role in the development of our foreign economic situation: our short- and long term interests have been equally well served by our admission into the UN and by our active participation in international customs and tariff agreements; we have also been taking initiatives in the CEMA and have been working hard to bring about substantive improvements in our relations with the Western European economic communities (so far without much success).

Let us also look at the unfavorable phenomena. These have been the symptoms partly of the partial character of the changes, and partly of prolonged deficiencies. They do not counteract our accomplishments, they only cast a shadow over them and vice versa, our accomplishments do not neutralize our problems, for the latter require solutions independently, solutions which in fact will help preserve these accomplishments. Let us examine the tension-causing factors of recent years, the problems which constitute the source of potential dangers.

The general improvement of our economic efficiency has only been a minor factor in the development of our foreign economic balance; it has been more significantly affected by import, investment and credit restrictions, and as a consequence of these, by the assertion of various business-retarding effects in our economic regulatory system as a whole. Given its present state and without significant further development, our economic management system is unsuited to promote and encourage economic development, for from the point of view of the enterprises too frequent, hard-to-understand and often fastidious central interventions can become a hindering factor.

Instead of improving, our market relations have been showing signs of stagnation. Of the commodity markets, only in the food market have we found a satisfactory balance; the market of industrial commodities and capital equipment has been often in a state of disequilibrium. We still have not had any real competition developing in our economy, most of our prices are still not competitive by any standard, hence enterprise profits still have not reached the level of actual economic efficiency. The greatest problem stemming from this is that the enterprises are pressured only by central restrictions while from the market side there is not enough compelling force to bring about improved efficiency.

While the expansion of various small business forms has had an unequivocally favorable effect, the fact that the more or less free-market type sphere of small businesses has become officially accepted while our big enterprises have had to continue to operate in a simulated and overregulated market has been a source of tensions. In these two different markets organizations and individuals have, especially in terms of the relationship between performances and earnings, had to perform under overly diverse conditions. Hence they have been less able to challenge the small businesses to a competition.

Undoubtedly, the restrictive policy which has been gradually developing since 1979 has significantly increased our unused capacities. Since 1979 it has taken three times as much in initial capacities to create a 1 percent increase in production than it had during the previous period. The picture is even less favorable in the construction industry. The most important reason behind this situation lies in a regulatory deficiency. This regulatory defect stems from the fact that the interests of industry with respect to manpower management continue to be inconsistent. While some of our industrial enterprises--especially those in highly concentrated settlements--have been struggling with manpower shortages, due to certain peculiarities in our wage regulations as well as some other reasons, in recent years they have also benefited from the diffusion of some of their manpower for it has enabled them to increase the wages of those who have stayed without having to make any special effort, and they have not been forced to try to offset the declining demand for their products

by searching for new products and markets. On the other hand: they have continued to have a vested interest in maintaining a work force level which cannot be efficiently employed.

After about 4-5 years this unique tendency is threatening with the development of a so-called restrictive, limitative spiral in our national economy. The danger of this spiral is that the self-stimulating and reproductive limitation of our resources and their utilization which can always be justified in any given moment, will create an effect which over several years may be incompatible with the goals of utilization. Today we are cutting back investments, imports and consumption in the interest of efficiency, but once its impact on production is exhausted, and once declining demands no longer compel us to revitalize production it is conceivable that tomorrow it will be curtailed utilization that will lead to reduced efficiency.

Our slow growth rate has led to tensions in the area of social allocations. It is typical that even though the ratio of social allocations within our net national product and popular incomes has increased since 1970 from 16 to 24 percent and from 23 to 32 percent, respectively, social criticism concerning them has not subsided but rather increased, especially in recent years. These allocations have had a limiting effect on earned incomes and real earnings, and at the same time they have been less adequately suited for meeting existing needs, which is due not simply to the overexaggerated nature of the demands but also to the fact that in many respects our order of distribution and social policy making has been dysfunctional.

If we examine the political effects of the economic events of the past 4 to 5 years, it can be generally concluded that although our increasingly difficult situation has not strengthened our political stability, it also has not shaken it. The hardships have been relatively evenly shared by all of our various strata, without any exaggerated differences. Only with respect to those involved in small businesses have many people begun to suggest that perhaps this stratum has been assuming less of our increasing burdens, however, the other side of this coin is that this stratum also works and turns out more than the average.

The criticism concerning economic issues has been getting stronger in three social groups. There have been indications of growing dissatisfaction among our enterprise managers and technical intelligentsia with the restrictions and the bureaucracy they have had to face. Among our youth the dissatisfaction is with the difficulties which they have to contend with in starting a new career and a family, and occasionally also with the slowness of the reform process. And among some of our cultural intelligentsia the cause of greatest concern has been the non- or just barely improving situation of those strata that have been living under unfavorable social conditions.

Development Alternatives

Getting back to the general tasks of the current years, it can be said that the consolidation of our foreign economic conditions has come a long way, although it still has not been completed; the political stabilization and trust have remained, but the desired change that was expected to bring about an improvement in our economic production capacity has not materialized, hence the "economy" can easily become unstable. We are yet to complete the task of charting a new course of growth.

The question arises: what alternative possibilities do we have in selecting the economic policy of the coming period? This question is being examined by various party and government committees which have been working on measures that will affect our entire economy. This notwithstanding, we feel that it would be worthwhile to characterize our decision-making problems, and to express an opinion about our alternatives. In our situation we either choose to keep economic changes to a minimum which entails few short-term but more long-term social risks, or we can take upon ourselves to accelerate the economic changes necessary in the longer run which may mean taking greater risks in exchange for greater long-term security.

Making minimal changes would mean having to do basically the following: the flow of social manpower and capital would have to be retargeted toward more efficient activities and at a faster rate than it has been done so far; while implementing slow structural changes, exports would have to be increased in accordance with the expansion of foreign markets; import replacements, on the other hand, would have to be accelerated; certain aspects of our economic management would have to be further developed while keeping its present functions and methods intact. We would have to moderate, but basically preserve our existing system of import, investment and financial restrictions while keeping domestic consumption at a permanently and significantly lower level than our net national product. By doing all this we could perhaps solve the problem of consolidating our foreign economic balance, however, we could hardly bring about an improvement in our domestic economic processes that would eventually lead to the slow exhaustion of our political trust "capital."

Our other alternative, the acceleration of economic changes would mean the following: by speeding up the flow of manpower and social capital, and by subjecting our system of economic management to a comprehensive program of further development we would have to reduce and eventually eliminate the restrictive character of central regulators. By making faster changes in our export structure we would have to expand the foreign markets of our industrial and agricultural products; in most of our commodity markets we would have to eliminate shortages, in part, by way of domestic

production, and in part, by increasing our imports; domestic production would have to be slowly and gradually increased by closely adjusting it to the net national product; our external sources (credits and operating capital) would, at first, have to be kept at their present levels (while decreasing its ratio compared with our exports) and would later have to be rationally increased. By doing all this we would make it possible for real consolidation to take place not only in our foreign economic positions but also in our domestic economic conditions.

Should We Concentrate on Getting Efficient Development Under Way, or on Preserving Our Already Established Management and Institutional Stability?

Before we begin to discuss our presently feasible economic policy and management alternatives the question should again be raised: can we break out of our present tense situation? We believe that the answer to this question is unequivocally yes. Our earlier stated similar position, however, does need to be revised in some of its points.* At the beginning of 1979 we still could not have anticipated that even in the case of a definite change in our economic conditions we would not be able to maintain our standard of living, including our real wage levels. There was reason to believe that our non-deteriorating but rather improving living conditions would be of such great help in creating a development-promoting atmosphere that it would even be worth taking on the risk of going a little further into debt. The back then unanticipated further deterioration of our external conditions, however, has precluded this possibility. Today the only area where additional resources can be sought is in our performance and income-producing capacity. Due to mistakes that have been made so far in making the necessary adjustments, the Hungarian national economy has found it difficult to maintain its position in the world. Today, because of the pressing burdens of our debt obligations, averting the danger of falling behind requires enormous efforts. If, however, in light of the ongoing transformation of the world economy we choose to adopt a strategy of retreat, and instead of subordinating our economic policy and the social conditions of economic management to the task of improving our performance we will do just the opposite; furthermore, if all we do is try to avoid economic policy changes and their social-tension causing effects at all cost then very possibly we will fall seriously behind.

For only by helping the creative capacities of individuals and organizations fully assert themselves can we prevent economic growth from coming to a halt and avoid falling further behind.

*Rezso Nyers and Marton Tardos, "What Kind of Economic Development Strategy Should We Choose?" GAZDASAG, 1979, No 1.

The question is why these creative capacities have not asserted themselves better so far, and how this force can be mobilized in the future? There appears to be no other answer to this question except that so far our established economic conditions have not incited us to make greater efforts and to provide a more conducive atmosphere for improving the efficiency of work. This cannot be changed with only kind words and agitation. Consequently, if we cannot count on a favorable change taking place in our external conditions our only hope lies in changing our conditions of management.

Nevertheless, developing a new strategy is not easy. Solving this already challenging task has been made even more difficult by conditions which tend to hinder our freedom of movement. We must increase the freedom of our state and cooperative enterprises in managing themselves, and must stabilize our small businesses while continuing to curtail domestic consumption. This already challenging task has been made even more difficult by the following:

It is unquestionable that the basis of our social achievements is the relationship which has evolved between our population and the leadership of our country. One of the reasons why society has accepted our government's policy is because it has brought improving public welfare, job security and a commodity selection which has been more or less in harmony with demand. It directly follows then that we must safeguard this historically favorable basis by adjusting to our possibilities.

It is also an undeniable fact that when it comes to reform processes which entail significant changes many people have reservations, and some even look at them with suspicion. There are also certain international factors which warn us to take caution. The unevenness of our progress along the road of reform, the sudden halts and even retreats that have followed new bursts of activity are a clear indication of the dimensions of the problem. Consequently, it is to be expected that once our break-out strategy is consistently implemented this will increase the danger of undesirable side effects and the fear which they generate. The income redistribution resulting from price-level increases and the elimination of jobs brought about by the scaling down of low-efficiency plants and activities are initial difficulties which stem from a new form of manpower flow.

The above circumstances clearly show that choosing from among various economic policy alternatives is not an easy task. The country cannot be led onto a course of efficient development by jeopardizing social tranquility. Social stability is one of the cornerstones of every favorable change. At the same time we cannot conservatively insist on preserving those historically developed factors which constitute the basis of the status quo if they become an obstacle in the way of faster growth and greater

efficiency. Of the two competing social goals it is the first one which must--and can--be given priority while preserving the other with some changes in its specific conditions.

Another reason why we do not have to, and in fact must not insist on preserving certain values or social norms qualified as such is because they have created a "luke warm" social climate which limits the self-expression possibilities and creativity of politically significant, and from the point of view of economic progress important strata. We can safely give priority to the interests of those strata which desire to create and work more and better, even if this were to cause increased dissatisfaction among groups which having been accustomed to secure conditions before would now be forced to live with stagnating consumption and asked to change their attitudes.

Under such conditions, finding an effective solution to the problems facing our economic policy already borders on being a feat of art. Our difficulties, however, cannot be used as an excuse.

The only way that we can preserve the economic accomplishments which we have attained so far is by ensuring that the reestablishment of our disturbed financial equilibrium is followed by efficient development. Temporary successes achieved on the basis of good slogans, but geared toward preserving certain social structures that have been left to us as a "legacy" of the pre-1968 system of management--responsible for hindering our economy's capacity to adapt--are of questionable value and will eventually lead to failure. We must not allow the well justified cautiousness which breaking out and entering onto a course of efficiency requires to be confused with an attitude of conservatism which uses our extraordinary situation as an excuse but is actually averse to change. In the areas of price development, wage regulation and employment policy our socio-political organs, including the trade unions which negotiate with our government, should strive not to keep the changes in the existing conditions to a minimum, but to protect the present income levels of enterprise workers and at the same time to serve future interests. We must start from the basic recognition that the greater the economic accomplishment, the more there is to distribute, and when that is the case even possible social injustices can be better tolerated, and it is easier to resolve them.

A Development Policy Adjustable to Changing Demands and Aimed at Satisfying Them More Fully or Concentration on a Few Developments?

The acute lack of investment resources has undoubtedly made it more difficult to solve our management problems. We must remember, however, that even when we were spending 30 percent of our national income (41 percent of the GDP) on accumulation we used to feel that we were lacking development resources. Today it is already clear

that by increasing the utilization of our accumulation resources we have not reduced but aggravated our problems.

Consequently, we feel that under the present conditions of tight resource utilization, when only 13 to 15 percent of our national income, 24 percent of the GDP, is being spent on accumulation, a qualitative improvement in the selection and implementation of investments may open the road to economic growth.

The serious lack of investment resources has led many to the conclusion that resources must be used in a concentrated fashion and that fragmentary development must not be permitted. This so very inviting therapy, however, may divert our thinking in very dangerous directions. Undoubtedly, it would be very appealing to be able to come up with an occasional spectacular development success, and there are several economic areas where this is possible. This time we will only mention two of these. The rising price of energy sources has broadened the possibility of domestic mining developments, and has made it virtually imperative for us to replace much of our imported energy sources. The rapid development of electronics and our own backwardness appear to be almost compelling arguments that we must do something significant to somewhat narrow the technological gap.

We must concentrate on a few selected developments, but only to the point where they do not syphon resources away from other necessary developments.

As long as our export potentials are weak it is not justified to speak out against import substitution. It is also true that the electronic revolution has considerably magnified the specific danger of falling behind, hence it would be nice if we could forestall any further decline by making some kind of a major, concentrated effort.

The actual situation, however, does not--for two reasons--present a favorable opportunity for undertaking such major actions. On the one hand, because a concentration of great forces taken from our highly strained resources would cause enormous damage. Smaller additional efforts--as we will see later--are better suited to our present possibilities. On the other hand--and this pertains more to developments in electronics-- neither our CEMA, nor our capitalist markets offer adequate possibilities for selecting and implementing significant export-potential building actions requiring international cooperation. In our CEMA trade we can only expect slow development, and the capitalist markets do not offer any possibilities for sudden sales increases, even during periods of prosperity.

Presently, many of our resources are frozen because there is no demand for the production of certain goods that had been planned

at the time the investment decisions were made. These resources, however, are valuable, and we need only to find a way to use them in a kind of production development for which there is demand. In order to be able to mobilize our resources in this manner we must open up new channels of capital redistribution. This must also be enhanced by monetary changes that will encourage enterprises to use their frozen capital assets efficiently or force them to sell, in other words, to yield their unutilized resources to other enterprises or small businesses.

There are many other questions pertaining to our longer-term economic policy which, however, are only tangentially connected with the alternative of breaking out or retreating, that must be answered by our investment policy. Of these, first of all, I would mention the problem of overcoming our infrastructural backwardness, solving our housing shortage which continues to be the greatest cause of social tensions and developing a strategy of adapting to the conditions of the scientific-technological revolution. In connection with these serious, unresolved or at least not fully resolved problems, this time we must be content with pointing out that as long as the task of preserving our country's solvency and properly ensuring the living conditions of the population continues to tie up a significant part of our national income there can be no proper solution in these longer-term, strategic questions, and all we can hope to do is to try to preserve the safety of our provisions. The only thing that will make it possible for our strategy to catch up with the leading countries is if we can satisfactorily eliminate economic instability and the accompanying danger of falling behind.

Radically Curtail Informal and Ad Hoc Interventions by Central Management and Provide an Institutional Basis for Market Regulation or Merely Continue to Develop Certain Elements of Regulation?

The varying economic successes of the past 16 years not only prove that a regulated market makes satisfying needs more possible than a plan-directed (in other words, direct) form of planned management combined with self-clearing (khozraschot), but also call attention to the fact that there are also a few other elements in an overly centralized and regulated economic system which interfere with the efficient satisfaction of social needs. For, as it is well known, the institutional legacies of a plan-directed economy tend to restrict the development of the kind of market effects that would have prevented certain voluntaristic central measures from becoming implemented. This is why foreign-market equilibrium related considerations had not been properly weighed until the opportunity came to obtain cheap loans. Later these legacies assumed a unique, and in a certain sense positive role. For the stopping of the process of further debt accumulation has been the result not of the self-regulating activities of the

market, but mainly of informal type interventions based on the powerful positions of the central apparatus, and of the kind which is often referred to as "manual guidance."

This solution has enabled us to put a quick stop to the deterioration of our balance of payments and to our budgetary indebtedness, but it has not been enough to provide a basis for efficient development and to create a close connection between balance and growth. Hence, by modifying our state regulations and preferences we must establish conditions for our state and cooperative enterprises that will enable them to satisfy solvent demands at a high level of quality and to mobilize the creative forces of our citizens to a much greater extent than it is presently done.

We believe that we need a three-pronged change:

- a. Economic regulations that will significantly reduce our enterprises' wage-management and import restrictions, and that will increase their freedom in determining prices and in manpower management;
- b. we need to radically reduce informal and ad hoc interventions by our state administration into matters of enterprise management; we must rethink the role of social organs in our economic policy;
- c. we must solve the question of enterprise independence from the institutional and supervisory standpoint.

Bringing about a significant increase in the degree of freedom enjoyed by enterprise management is possible only if we can find more efficient means than what we have now to keep national economic demand within a well-coordinated framework; if we do not allow subsidies for unprofitable production to gain ground again; if we use the price mechanism to ensure harmony between our production possibilities and demand; if we shape the exchange rate of the forint by taking into account our balance of payments, and if we consider wages to be the same kind of expenditures as the costs of the other factors of production and significantly reduce the role of income regulations. And finally, if their freedom to determine prices permits enterprises should be allowed to include their general costs in the price of their products, according to the load-bearing capacity of their commodities.

At the same time this also means that income taxes which fall most heavily on the efficient ones must be curtailed, and instead we must increase the role of energy taxes which promote efficiency.

If we carry out the above changes, and as a result can significantly increase the role of money in our economy then we will be able to use our established, albeit still not optimal producer

prices and the profits determined by them as the main and "objective" measure of enterprise performance. This will make our long-proclaimed goal possible: subjecting our enterprises to the pressures of the market. Enterprises with plants which under these circumstances can only produce at a loss, and which cannot cover their changing costs from their revenues, have no other choice but to close down those plants. There must be similar consequences if the entire enterprise loses its solvency. Plant closings and enterprise bankruptcies, however, should not be allowed to be interpreted as being anything more than one-time, quick alternative measures to making continuous adjustments to existing demands. Our aim must be to ensure that plant closings and bankruptcies are followed by a renewed, rapid mobilization of resources as well as manpower.

In connection with state intervention it should be understood that in an economy which for decades has used administrative means to direct the traffic of goods, and which since the elimination of directives has relied greatly on the system of formal and informal relationships of our state administration one cannot expect that the method of state regulation be abandoned overnight, in favor of using only financial means. And this is really not necessary. The present practice of administrative intervention, however, must be radically changed. We cannot expect independent and resolute economic behavior from our enterprises until they are informed about when, in what areas and with what methods our state organs will intervene--often informally--in their lives. Hence, we must take radical steps against the established practice of interventions. In order to be able to do this the market supervisory authority must be clearly divested of proprietary enterprise-supervisory rights. Furthermore, the market-regulatory jurisdiction of our government organs should be defined by law. We need to codify which articles warrant direct intervention by our state administration into the marketing activities of enterprises by way of general and specific prohibitions. Even more in need of clarification are the kind of instances when and economic organ can be given an order. It is not enough just to state that no orders can be given in cases where the goal of the intervention can also be attained by way of economic means. The grounds for giving an order must be defined by law, and it must be ensured that our government can change and expand the existing bounds by way of statutory revisions.

In addition, we must provide our enterprises with legal remedies to protect them against possible illegal orders. In such cases enterprises should be allowed to sue for damages in a court of law, in accordance with the regulations of the civil code. In addition, it would be expedient to expand the practice of compensation and the settling of damage-related disputes to all special orders.

One question that has been causing considerable headache is how supervisory-proprietary rights should be exercised over our enterprises. The conflict between state ownership and the market independence of enterprises is not irresolvable. The establishment of enterprise councils in our bigger enterprises, and the election of management in the smaller ones have been important steps toward solving the problem. We believe, however, that the direction of the changes require further clarification on one point. We believe that the separation of proprietary tasks from state administrative duties can only lead to clear-cut results if those authorized to exercise the right of disposal can assert proprietary views. What we mean by this is that they should supervise enterprise management by weighing the increase in the real value of enterprise capital and should ignore the multitude of, from the point of view of the enterprises, confusing state administrative considerations which are the duty of economic regulations and legal controls to assert.

Performance-Oriented Income Differentiation or the Stiffening of Our Existing Income Structure?

In 1979 our economic-policy making leadership defined as its political goal the preservation of our standard of living, including full and efficient employment. The specific content and interpretation of this program, however, has remained obscure. It was assumed back then that after the cut in real wages was implemented in the middle of 1979 there would be no more. It was thought that the decline in real incomes which occurred in the second half of 1979 was not in conflict with the slogan of preserving our standard of living, as long as our 1979 average income did not drop below our 1978 average income. Finally, it was believed that maintaining our standard of living was not in conflict with making definite cuts in the real value of earned incomes, including real wages.

In the meantime, due to the deterioration of conditions and the inadequate development of our productive capacities, the 1979 consumption restriction has been followed by another restriction in 1983-1984 which basically has also been the result of central price measures. Finally, it has also become clear, however, that society has endured the reorganization that has brought stagnating popular consumption and a 6 to 7 percent decline in real wages between 1978 and 1983, as well as the slight deterioration of commodity supplies, and there is every reason to believe that it will endure even further cuts in real wages in 1984.

It has also become clear, however, that our society is aware of the actual processes that are behind our living-standard maintenance policy. One of the especially important changes that has had to be understood is that the slow decline in the real value of earned incomes naturally only applies to the average which means that a considerable number of people are worse off than the

average. At the same time it should also be noted that the growth in the volume of social benefits which has been due to higher-than-average pensions paid to new pensioners is not viewed by the population as an improvement or a factor which can offset the decline in real earned incomes.

The key point on which there is a departure from the earlier supposition is that the restrictive periods have not led to improved economic efficiency. Moreover, the income regulations aimed at reducing real wages have prevented our enterprises from distributing wages according to performance, and by doing so from encouraging better work during the primary working hours. As a result a unique situation has developed in the life of our industrial and construction industry enterprises. Declining demand, especially the deteriorating utilization of our fixed asset stock has not resulted in layoffs; what has happened instead is that--placing the blame partially on manpower shortages--they have even failed to satisfy the reduced demand. Hence, even during periods of slump our sellers have been able to retain their position of superiority in the marketplace. Under these circumstances only by systematizing special interventions and by applying informal pressures has our government been able to attain acceptable quality in our domestic commodity supplies, to replace our falling imports with domestic products and especially to increase our exports.

The way our enterprises have been able to avoid a definite decline in their performance and to more or less fulfill central expectations is, on the one hand, by taking advantage of the possibilities offered by our shift from average wage regulation to wage fund management. This has enabled them to increase nominal wages, despite a decline in per-unit revenues without having the limiting effect of prohibitive taxes disturb their positions. On the other hand, by setting up business work partnerships many enterprises have found rational "back doors" in the still rigid framework of income regulation which has enabled them to establish a connection between enterprise performance incentives and the efforts of workers who wish to earn higher incomes, and who are willing to sacrifice their free time and do more and harder work.

It is an open question, however, whether restrictive income policies and efforts aimed at increasing efficient production can be successfully connected. This, however, requires a more complex, multilevel living standard policy with well-coordinated institutional changes.

The wage management of our enterprises should be made increasingly free of restrictions, while the strict regulation of total wages should continue by taking into account and in harmony with our general economic situation. An increase in the income and cost sensitivity of independent enterprises will make it a must:

a. to reduce unemployment within the gates which is something that has continued to haunt us to this day, and

b. to manage wages economically which is not the same as strict income management.

The systematic and strict regulation of national economic demands makes it possible not only to ease restrictions on wage management, but also to moderate the inflexibility of price regulation. Having a freer system of price formation is important for improving our enterprises' ability to adapt. In the case of many products, however, its utilization has indisputably often given way to so far administratively limited price increase tendencies. It would be an exaggeration to think that restrictive income regulations by themselves can keep spontaneous price increases within our existing limits. Hence, if we want to increase the freedom of our enterprises in price formation, and at the same time also hope to limit inflationary tendencies, then the present practice of insisting that most consumer price increases be done by way of central measures is not a fortunate one. The policy, therefore, which aims to limit popular incomes mostly by reducing central state subsidies to consumption and by raising central consumer prices does not appear to be expedient. The amount of consumer price subsidies should not be cut suddenly and significantly, not only because this would not help to remedy our central problem, namely, the management situation of our enterprises, but also because some of these central price measures involve food price increases that would hurt mainly the poor strata which need protection, and because they would unnecessarily turn social tensions caused by management problems into direct conflicts between the government and the masses.

Instead of making significant cuts in state consumer subsidies the expedient thing to do would be to fix their level, allowing the affected consumer prices to rise if production costs exceed the aggregate value of the price and the fixed-sum subsidy.

The above changes in our employment policy, income regulation and price policy present new demands for our corporate organs. They, including the trade unions will have to do more than just adjust their views on what our living standard policy should be to those of the government. Under our new conditions we need not only to ensure that these negotiations lead to an agreement on minimum wages and pensions, and on raising them regularly in accordance with consumer price increases, but also to a qualitative improvement in the safeguarding of interests at the work place. Our factory trade unions must be willing to take a more specific and forceful role than they have so far in representing their members in disputes between enterprise management and different strata of workers, and especially in cases pertaining to wages, wage differentiation and layoffs.

How Should the Need to Ensure the Socio-Political Security of Our Citizens Be Interpreted?

One of the important lessons of our almost 4-decade long social development is that the task of increasing our production and improving our position in the world must not be set against efforts aimed at meeting popular needs, developing infrastructural services, the housing situations and provisions to the elderly, and improving mother- and child-welfare. Hence, the popular slogan of the 1950's which warned that "we should not eat the chicken that lays golden eggs" does not provide any guidance concerning the above.

The sudden drop in real wages and the deterioration of commodity supplies at the end of the 1950's had led to some well-known social disturbances. The poor quality of infrastructural services, the huge discrepancy between social demand for housing and housing availability and the many unsolved problems concerning provisions to the elderly and mother- and infant welfare have been a source of significant tensions and a hinderence to progress. The fact, however, that conflicts among our various social goals is impermissible, and in fact perturbing, does not mean that it is expedient to plan simultaneously and with equal effort to achieve every stated and in itself justified goal. It is especially justified, and at the same time also extremely difficult to determine preferences among our goals when the tendency of growth among our resources available for distribution is broken. Fewer resources are much more difficult to distribute in an acceptable manner.

We want to mention two such goals: job security and price stability. One of the accomplishments of socialist economic management is that it has been able to ensure everyone's right to work, that is to say full employment in virtually all areas. This must continue to remain our goal during the difficult years of economic consolidation, and we are convinced that it is possible to avoid general unemployment that would permanently displace certain individuals from production.

There is one element in our present employment practice, however, which in general and especially now is hard to justify: namely, too much job security. After all, the demand for products and services is constantly changing, and in order to adjust to this our system of work processes, plants and enterprises must be under constant revision. Our previously developed and presently still valid system entails a positive as well as a negative consequence: on the one hand, it does not require, only in highly exceptional cases, enterprise initiated dismissals. The lack of dismissals has meant not only that poorly working people have been able, often at the expense of their colleagues, to take advantage of the inertia of the management system, but also a reassurance that those who have not committed a major sin would be able to keep their jobs until they reach retirement age.

Given the requirements of having to adjust to a changing world--especially if we also take our unfavorable situation into account--this can no longer be guaranteed. We must continue to make every effort to ensure that our manpower requirements do not exceed the demand, but we cannot attach such great value to the security of our workers that we become forced to wait with scaling down a factory or even an enterprise, until we find a proper position for every employee. Of course, it is not the way it is today, nor can it be guaranteed in the future.

Nevertheless, the obligations connected with this so far have prevented our enterprise managers and the government from taking many well-justified measures. The first steps aimed at establishing the institutional conditions of manpower mobility have already been taken with the introduction of subsidized retraining programs, although this form--which helps only those who have been affected by manpower reallocations organized from above, and, therefore, has not become an integral part of our management practice--does not solve our basic problem which is how to provide support for the temporarily unemployed, yet this question also cannot be avoided. This notwithstanding, we have already embarked on a bumpy --and for many people problem-causing--road which we must continue to follow if we wish to create modern producer and trade organizations able to adjust to our demand conditions that will enliven our economy.

Another important problem which affects our society is inflation. For a long time price stability was considered to be one of the successes of socialist management. This mechanically interpreted price stability, however, has forced us to pay a great price. For it has played a significant role in the development of shortage management. Since 1968, the Hungarian national economy has taken significant and successful steps toward reducing the amount of shortages while, unfortunately, also having to implement increasingly greater price increases. Domestic price increases cannot be isolated from inflation as it often used to be done before, still it must be looked upon as a unique case of inflation.

For here the amount of the price increase, and to a greater extent the change in the price structure (i.e., the interrelationships among individual prices) are the results of conscious price movements determined by the plan, and of so called central price measures. Furthermore: another characteristic of this process is that our party and government coordinate all price changes in advance with our corporate organs (SZOT [National Council of the Trade Unions], TOT [National Council of Producer Cooperatives]). This "advantage" at the same time is also a "disadvantage," for these price measures cannot be equated with price movements which directly react to market demands and to changes in supply and demand. If we want our enterprises to be able to react to the financial pressure put on them in a truly independent manner by

changing the make-up of their supplies, we must make every effort to ensure that market price movements are given a greater latitude of movement than what they have today without increasing the rate of inflation. This way our government organs will also not be forced--as they have been so far--to relax their financial restrictions on the enterprises, and consequently, to abandon their proclaimed financial policy.

These requirements presuppose significant progress on the part of our government in systematically curtailing national economic demand. In addition, we also need new measures for coordinating our social interests. This will require a change both in the way our government and our corporate organs operate. We need to work out how we can neutralize the unfavorable price changes which affect society so that they cannot prevent the many important goals of our social policy from becoming realized.

Necessary Economic Changes and Our Ideology

The practical application of the economic mechanism that has been in operation since 1968, and the changes that are presently due in the institutional system of our economy and in our regulations have raised a great many inadequately clarified ideological questions. We will mention only two of these, and even then only tangentially: the assessment of the role of the market, and the relationship between policy and management.

Earlier we discussed the effects of informal economic interventions on our economic units and determined that although these have helped to surmount many of our acute problems, they have also restricted the market-oriented behavior of our enterprises, and thus have also contributed to the fact that shortages have continued to be an accompanying factor of our economic management.

From the above experiences one can easily conclude--as many have--that in those countries where most capital goods are in state hands the introduction of controlled market conditions are well suited to alleviate the significant difficulties of supply and demand and the effects of some especially unfavorable factors, however, it makes it impossible to eliminate shortage management, to bring about an adequate increase in supplies and to limit expenditures. Those who hold such views point out that under socialism the role of the market is always limited, and that this is the way it should be, while in fact the results show just the opposite. They are playing into the hands of those who use the market economic theory to question the rationality of socialism. And starting from this premise they conclude that we must continue to preserve the determining character of non-market control methods.

In support of these views it is also customary to bring up that the idea behind the regulating role of the market is nothing more than

a rehashing of Adam Smith's long-invalid and obsolete "invisible hand" theory. In the modern world, even under capitalist conditions, the regulating role of the "visible hand" cannot be dispensed with, or can only be eliminated in the auxiliary areas of economic management.

Due to the great many interrelationships and the complexity of the various phenomena that pertain to the question raised here it is not easy to give an unequivocal opinion. We believe, however, that even within the limited space allowed in this article, we cannot avoid taking a stand.

We believe that it is necessary, although not enough, to go beyond these two possible extreme points of view. On the one hand, it is not enough to claim that not every economic question can be handled exclusively by way of self-regulating mechanisms, and on the other, it is also not enough to stress that there is not an enlightened central authority or hierarchical organization that could reconcile every question of our economy without conflicts, free adjustment, in other words, without a market. The former statement is true, but it is no proof against the use of the market mechanism, while the latter is still not a complete statement from the point of view of solving the problem. From the standpoint of how well the economy can be planned the establishment of socialist property relations is a vital precondition, but it cannot by itself lead to the kind of economic and social conditions that had been envisioned by theorists of socialism. The constant development and changing of social needs, our international relations and many other factors have not only made the details of management from a single center confusing, but have also prevented management based on a division of tasks from becoming effectively realized within a centralized hierarchy.

From the point of view of actual practice, the conclusion to be drawn from this assessment of the facts is that just as there is no market, there is also no perfect plan. Self-management and centralized, conscious economic control only have combinations that are either better or worse. Before, starting from this thesis, we proceeded to take the next step toward practice it would be expedient to take a short detour.

What we must respond to is whether it is really justified to view the market in the modern industrial societies as an obsolete category that has been pushed to the periphery. Two things are obvious: on the one hand, in the practice of capitalist societies there is significant state economic intervention and a sizable state sector, irrespective of the ideological and political requirements they are facing; on the other hand, it is also clear that in the non-peripheral part of the economy, that is, outside of the variable-size public service sector there are autonomous economic units operating everywhere which irrespective of the size

of the organization can rapidly react to changes in demand, and by taking them into account they can constantly adjust their production and system of production relations, and organize their channels of financing in accordance with their own interests. The colorful and changing business relations between our big and small enterprises and our financial institutions must be considered market relations, even if this market does not live up to the requirements of perfect competition.

The reason, therefore, why the economies of the leading industrial countries may be called market economies is because there the most important objective in the forefront of the sellers' activities is satisfying buyer demand. The monopolistic and oligopolistic effects which tend to lessen the effect of the competition, however, have three unfavorable consequences which must not be forgotten. On the one hand, the sellers try to influence buyer demand by way of advertisements and other means. This effect may be unfavorable if it is identifiably a manipulation which reflects producer interests. On the other hand, monopolistic producers often do not make full use of their capacities because although with less production there is less demand, the profits that can be made are also greater. Finally, monopolistic profits are accompanied by smaller profits earned by small producers who are involved in more intense competition which, socially speaking, is also unfavorable. The imperfection of the competition, however, is no reason not to recognize the positive effects of a competition hampered by monopolistic effects, and we should not resort to this in our own society. This is especially justifiable to point out in view of the fact that we have many methods at our disposal to establish the necessary conditions of competition, and to reduce those circumstances which hinder competition.

Going on to the relationships between policy and management, it must be clearly understood that finding a solution to our economic policy problem will entail three important consequences: first, under our changing circumstances the practice of management requires that the political basis of socialism be broadened; secondly, greater efforts will be required to eliminate the tensions which exist at the work place, at the plants and enterprises; and thirdly, carrying out this task successfully will require the support of wide segments of our society.

These consequences will not lead to serious problems under the conditions of long-term economic growth and significant structural changes, but only if, by relying on the experiences of the past quarter of a century, we succeed in revitalizing the relationship between our party and the masses while taking into account the requirements of our present situation. What do we need for this revitalization to become a reality? What we need, first of all, is for members of our society to be able to express their interests in everyday life and in management more clearly, and secondly, to

ensure that with the development of our system of political institutions the more effective assertion of stratum and group interests will lead to a social consensus on every important issue.

The development of the economy, therefore, require that we perfect our political democracy. The national assembly, our functioning corporate organs--including, first of all, the trade unions--must prepare to perform new tasks. Also in need of significant changes is the way the business federations of many important, and so far unprotected social strata or partial groups are organized.

Our policy and our economic interrelationships, therefore, are clear: economic progress is one of the conditions of preserving a tranquil social situation. And this goal--even if it appears to be inconsistent with the above--can only be achieved by ensuring the development of socialist democracy and hence by promoting the assertion of interests.

9379
CS0:2500/509

OFFICIAL QUIZZED ON ECONOMIC GUIDANCE, TECHNICAL PROGRESS

Budapest NEPSZABADSAG in Hungarian 11 Jul 84 p 10

[Interview with Miklos Pulai, deputy chairman of the National Planning Office, by Judit Korma, conducted at the 23d Annual Conference of Economists; no date specified]

[Text] The 23d Annual Conference of Economists, which dealt with the interrelation of economic efficiency and the further development of economic management, devoted great attention to enterprise technical development. Since technical progress is one of the permanent conditions of the development of our economy and the improvement of our competitive position, the question of the extent to which the further development of economic guidance can stimulate or force the acceleration of technical development and an improvement in the innovativeness of the economy is a key one. We talked about this with Miklos Pulai, deputy chairman of the National Planning Office, who gave a lecture on this subject at the conference.

Limited Sources

[Question] One of the frequently mentioned problems of our times is the lag of Hungarian industry in its technological level as compared to the industrially more developed countries, and the danger of this is that if we do not speed up technical development, we cannot protect our present positions in the world.

[Answer] Clearly, practical experience shows that we have lagged behind in technical development in various areas that presently are important to world economic progress. There are many who see the reason for this in the fact that in recent years the resources that could be used for investment have declined. The decline is a fact, but it is also a fact that by international comparison the 25 percent of the GDP used for investment goals is not an unfavorable ratio. Demand, of course, could be much greater than this—including apparently rightful demand—but to meet this demand only more rapid economic growth based on equilibrium could create the additional sources. Thus, from all this we can conclude that our biggest problem is not too little investment but the inappropriate effectiveness and allocation of investments. Therefore, we must look for the solution in the possibility of speeding up technical development mainly along this line, all the more so because in the coming years we shall not be able to

increase considerably the sources available for investment. We still have very important tasks in the improvement of the equilibrium, and therefore we are considering permitting in the next few years domestic consumption to increase only to a small extent as compared to the increase in added value. We can count on a greater extent of economic growth than at present only if there is a substantial improvement in the efficiency and profitability of management. The further development of management seeks to create more favorable conditions for bringing this about. But in the 1980's our task will primarily be to find those possibilities which will help us participate in the major world economic trends, the more rational allocation of investments through their more concentrated and selective use.

The further development of economic management represents a significant movement in the conditions of technical development. Most important in this respect is not its effect on R&D activity but the effect it exercises on the entire chain of innovation. For in addition to research and development, production and marketing also belong in the concept of technical development, and for successful technical development the starting point is the improvement of markets and competitive position. Market requirements must compel the manufacture of competitive, modern products. Market success or failure should be decisive in deciding which enterprise and cooperative should advance and which should be retrodeveloped and perhaps eliminated.

[Question] Undoubtedly market influences strengthen selection and stimulate the development of enterprises that promise to be successful. But the market mediates present requirements whereas technical development is also a strategic task. Thus not a single country renounces state technical development policies.

[Answer] State guidance does not renounce the guiding and influencing of technical development. Within the framework of the economic plan, the central technical development policy must define those main directions by which the technical level and efficiency of the entire industry may be improved. These include, for example, electronics, biotechnology, automation, robot technology and the rationalization of material and energy consumption. In addition, the state has, and will have, tasks which it will solve by means of its own institutions and which it will finance from its own means. Here belong, above all, the development of the infrastructure, including a part of the production infrastructure. But I myself regard as most important—and with this emphasis I also call forth an apparent contradiction—the creation and operation of an economic mechanism which will stimulate and compel the enterprises to technical development in order that they may be able to keep, and even improve, their competitive positions on both domestic and foreign markets.

The Market Role

[Question] What are the most important changes related to the creation of this economic environment?

[Answer] Instead of the present--often compulsory type of regulation that has a leveling effect and strongly reduces the opportunities of successful workers to make headway while making it possible for the inefficient to survive for a long time without a realistic program of development, the changes are intended to help in a more differentiated development. Above all, the profit and profitability of the efficient enterprises should be the greatest. One of the most important elements of this is the development of the price system toward a competitive price system, and the modernization of economic calculation. As compared to the present price system, which is burdened with excessively strong administrative limitations, we would have a price system based on competition and built on market control which would, on the one hand, stimulate more effective increased achievements and, on the other hand, prevent the passing on of unjustified costs to the consumer. If according to the guidelines we allow the domestic producer price to be set between the export price and the import price increased by duties, it will be possible for those enterprises that can deliver, according to modern international standards, goods of acceptable quality under acceptable delivery conditions to achieve greater profits with their incomes. This is important because if we want to establish a supply market, we must make the producers interested in increasing profitable production.

The reduction of subsidies also influences greater differentiation, and the changes are also an important element in strengthening the normative nature of incentive. By means of exports that are built on a unified, active exchange-rate policy and that receive tax-rebate supports, those enterprises, for example, which export with more profitable foreign exchange earnings will do the best. The enterprises' interest in achieving greater income will be stronger. One of the most important elements of this is an increase in the normative nature of taxation and the change in its structure. In our enterprise taxation we put more stress on who uses how much and what kind of resources and less stress on the amount of income achieved. In this way the role of taxes as proportional to profits decreases and its role in resources increases. Even if not in the first step, we desire to reduce the general profit tax. The city and village (community) development contribution will not be in profit ratio but in wage ratio. The centralization of amortization will be discontinued while, according to thinking, the fixed assets of the enterprises will be subject to a property tax.

Efficient enterprises which can hold their own on the world market also help in the regulation of earnings. The new earnings regulation makes enterprise wage management dependent exclusively on the tax-bearing capability of enterprise profit. That is, the higher the profit the better it will be able to bear the increasing normative burdens of the wages, the progressive taxes, and will gain an advantageous position. The slackening of average-wage regulation in wide areas and, on the other hand, the increasing cost of live labor helps speed up the release of superfluous manpower at the enterprises. Besides all this, we are eliminating at the enterprises the funds which are formed according to many different points of view and which can be used only at certain costs. In their place we

want to establish a profit-reserve order, which will result in a more purposeful use of reserve sources. In addition to a freer use of their own sources, it will improve the situation of the profitable enterprises, including the possibilities for technical development, and various new forms of capital circulation. The profitable enterprises in this way have a good chance to acquire additional sources. In this sense the nature of bank credit is also changing, and the efficient enterprises also have the possibility of acquiring money from other enterprises for development—for example, by way of bonds.

Is There Compulsion?

[Question] Therefore, the further development of economic management strengthens incentive in more efficient management and in the manufacture of more competitive products. But incentive is only a possibility. How can a compulsion to technical development be realized?

[Answer] It is an important basic principle that market results should decide the survival and development of enterprises, that state intervention should be infrequent and be limited to a justifiable scope. Thus, the enterprises must reckon with the fact that if they cannot meet requirements and have no realistic development program, they may be eliminated. With regard to this, we are modernizing liquidation procedures. The starting point is if an enterprise cannot show its creditors—the bank or partner enterprises—a realistic development program which they are willing to accept, and if it cannot acquire money for carrying out the program, then within the framework of the liquidation procedures they will sell the enterprise's fixed assets and working capital, and in this way the unprofitable activity can be terminated.

Of course, it is possible for the state with the interests of the national economy in mind to help certain enterprises with capital allotments tied to certain conditions, or by other means. The goal, however, is that even in the state enterprise sphere it should become natural—as is already the case with cooperatives and small council enterprises—to liquidate an unprofitable activity. In these cases the buildings and the machines remain, the inventories are sold, the workers are given work, and thus a new grouping of producer forces may be created either within the framework of a new undertaking or an already operating enterprise. In this way the national economic interest will not suffer damage in fact, it is being realized even more strongly since we are liquidating a permanently unprofitable source.

The introduction of new enterprise management forms strengthens the compulsion, for direct responsibility before the collective is an incentive to enterprise managers.

[Question] It seems that the interest of the collective is strongly tied to the possibilities for wage increases, whereas technical development is a long-term task. How can this contradiction be resolved?

[Answer] The contradiction is by no means so sharp. A developing, ambitious enterprise wants to assure good earnings on a permanent basis because in this way it establishes the most important basis for technical development, the creative mood of the engineers, the economists, the skilled workers and the entire collective. To do this, however, it is necessary to keep abreast, and even to be a step ahead. But it also depends on incentive and regulation whether the collective emphasizes its short- or long-term interests. Changes related to the further development of economic management are expected to strengthen the pursuit of long-term interests in enterprise management. This is supported by regulation related to property interest, which is expected to be developed within a year or two.

A More Favorable Situation

[Question] In relation to technical development we have spoken thus far always of the complete chain of innovation. What kind of modifications can be expected in the regulation of enterprise research and development?

[Answer] Experience shows that those enterprises in which we dissolved obligatory fund formation spent no less on technical development. Therefore, we have to study how in the machine and chemical industry, where this obligation continues, we can take this step and at what pace, for this would be in harmony with the independence which in other areas characterizes the activities of the enterprises.

In addition, the number of various innovation funds and money institutes is also growing. This is important not only because of the expansion of sources but also because these sources are willing to take risks in enterprise research and development. Cooperation with them also gives a greater chance for the result to be realized after the ending of the research phase.

[Question] All in all, then, how much will the conditions for technical development change?

[Answer] We cannot create ideal conditions, only those that are more favorable than those we now have. Regulation in itself includes compulsory--temporary, we hope--compromises. Such is the property tax, for example. Only gradually can we ease and then eliminate the administrative prescriptions that weigh on technical development. We have to compete for markets, sources, because these will not be gushing forth much more than now. Risk has to be taken, for not every research-development project we start will hit the mark, but the truly modern, new product will make a place for itself.

Finally, enterprise technical development is an activity which puts people to the test but carries the promise of the future, which requires both the state guidance that sets the main goals and creates an environment suitable to the activity and the creative power of the best in the collectives.

6691

CSO: 2500/514

BUILDING PERMIT PROCESS REGARDED AS TOO SLOW

Budapest MAGYAR HIRLAP in Hungarian 19 Jul 84 p 5

[Article by Istvan Graner: "Construction Permits Slow in Coming"]

[Text] Everyone thinks his own problem is the most painful and the most irksome. So the lessons to be learned from some cases do not necessarily call for publicity. It is, however, worthwhile to pay attention to what several thousand people think: there is a defect in the machinery. We now concern ourselves with one such topic, namely, construction permits.

"I don't know which is better. To plan and authorize in 24 hours and then build within 48 hours, or vice versa," the assistant department head of the Capital City Council tried to clarify his standpoint. "In my opinion it is preferable to continue with genuine administration preceding the construction; this is, namely, the condition on which construction advances quickly and uninterruptedly. And I think that, in the final analysis, this is also in the interest of the builders."

Deadline Maintained

It would not be possible to argue with this opinion, were it not for the fact that the dimensions are expanding. The hours become days, weeks, then months. And no one thinks that what is at issue here is the time following the first strike of the hoe. It is much more a question of the time preceding it, even if the majority of supervisors who scrutinize the issuance of construction permits claim that everyone receives a decision within 30 days. The citizens have different experiences? There are those who speak about years? How can this be, I asked Sandor Kanyo, chief of the capital city's City Planning and Architectural Department.

"I can safely claim that the statistics are true, but we shouldn't call into question the truth of what the complaining builders say. What is merely at issue is that the councils' technical departments carry out a narrow section of the entire construction process, namely, the procedure for granting permission. They keep records of it, and our department verifies their authenticity. And we have observed this: the prescribed

deadline is maintained, even at the price of difficulties. Citizens, however, do not distinguish between the individual phases of construction; they place everything, from the birth of the idea to the receipt of the permit, on the office's account. But I claim that if someone presents a plan furnished with all supplements and answering to specifications, the 30 days prescribed by law are complied with nearly everywhere.

In fact, if someone want to build according to the so-called recommended plan, this time is reduced to 15 days."

Two years ago the capital city measure appeared, according to which applications for residential construction must be disposed of within 20 days, and undoubtedly there are regions where this urgent deadline is met. But how? In this way: the clock starts to tick only from the moment when the very last document necessary for the permit rests in the client's file. And it is very hard to satisfy this requirement, even if the capital city by decree puts a stop to the complications. It has been specified, namely, that at the time of submission of application--hence on the very first occasion--the building clerks must disclose what is missing from the application package, they must indicate this on the file, and they must have the builder sign it. This would be a guarantee against the clerk's ever being able to substitute it, and from that moment on it is up to the client how quickly he obtains the additional papers. It has to be emphasized here that it would be easier for both the council and the client if all the papers were together at the first meeting. For this, however, there is a need for many more informational guides, which--and this is part of the truth, too--the capital city and the National Savings Bank are having printed in large numbers, and they still do not get into the hands of the builders. And this is where people begin to cool their heels in waiting rooms, because in building matters it is possible to get information almost only in person.

Not Out of Spite

"I don't claim that an infallible and well-intentioned clerk works everywhere," continues the department chief. "I myself have come across a colleague who, taking advantage of a citizen's lack of information, again and again requested a missing supplementary document. But it has also happened that someone tried to reobtain official affidavits which had already been submitted."

But it still is not possible to find justification for this, if we know and understand the problem of those competent to deal with it: there are not enough people, especially experts. There is even a region where the head of the technical department does not have an engineering degree. That is when the assignments multiply not only in quantity but also in quality.

"I would even venture to say that spitefulness does not always lie behind the insolence," holds Sandor Kanyo. "We can also find cases where the clerk tries to stall for time because of lack of professional knowledge."

Dr Sandor Kiss, assistant department head at the Ministry of Construction and Urban Development, agrees with all this:

"The issuance of construction permits is regulated by a departmental order, the specifications of which we do not regard as complicated and bureaucratic. The basic rule of law in 1977, in comparison with the earlier ones, introduced considerable simplification. Thus, for example, there are buildings—such as agricultural edifices and annexes located in residential and vacation areas—for which a building permit is not necessary. At this time a number of people asked why the building authorities had to probe the legitimacy of the building site, why it was not sufficient to make a technical survey and express an opinion on the building permit. The suggestion was promptly rejected; after all, if a building permit was issued without it, then it could happen that someone would erect a house on another person's plot of land."

Redundant Verifications

"Undoubtedly we are not far from the truth when we say that every builder finds verification of the right of ownership to be most natural, and without a word of complaint he obtains the land registry review necessary for it. Few people, however, refrain from asking why it is necessary to fill out a statement that they have been residents of Budapest for five consecutive years when the land registry review has already verified that once. Many people likewise complain about why a real estate acquisition affidavit from the council is necessary for a building permit when it must be attached to the land registry review, and obtaining it—even in the case of illegitimacy—is child's play.

"I generally agree with these remarks. For the time being, however, I can only say this: we now intend to reexamine the rule of law for granting permits, we would like to add some restrictions in the area of buildings constructed without a permit, and we are also planning to simplify. I do not consider it inconceivable that there will be no need for these verifications in the future."

According to these, the situation is not all that hopeless, since the experts see that something should be done—not in the interest of a simpler but rather a quicker and more businesslike transaction of affairs. There is also a need for this because nowadays 80–85 percent of the residences built in the country are erected privately. In the future, however, this figure is expected to increase, not decrease. This means that the work of the councils will be harder, not easier. For this very reason, perhaps, it is not too late to seek the path of improvement, or that a few central professional offices for the administration of building affairs are organized in the capital city. And maybe there a permit can be processed "in 24 hours."

12327

CSO: 2500/516

ESTABLISHMENT, SITUATION OF MIXED ENTERPRISES DETAILED

Overregulation Hinders Progress

Budapest OTLET in Hungarian No 29, 19 Jul 84 pp 3, 10-15

[Editorial by Gabor Rajto]

[Text] You remember Feri, one of the heroes of the immortal one minute pieces by Istvan Orkeny, who set out on the road for Siofok on his Simca drawn by his 12 three-legged dogs. He needed the dogs because he was afraid of technology; and they had to have three legs because he was afraid of dogs, too. "What if they pulled the reins out of my hands. . . . It's better not even to think about it, Ilonka!" argued Feri. And to make doubly sure he put on the hand brake in Pest already. "Everyone is staring at us," said Ilonka, the traveling companion, with barely concealed anxiety. "They are jealous," answered Feri. "Their eyes are practically falling out," complained the lady further. "Because they see that even our most beautiful dreams can be realized," answered Feri, and probably gave the whip to the dogs.

Please do not look for close parallels between our collection of articles dealing with the import of working capital and the above one-minute piece. There are no dogs at all in our cover stories. There may be a brake. At least that is suggested by the fact that we are proceeding a good bit more slowly than we need to on the road leading toward mixed enterprises. It is true that we are traveling on a road not well built up, we must reckon with traffic coming the other way, but still it is striking that the distance has hardly decreased, although we started out 10 years ago. The decree dealing with establishment of mixed enterprises appeared in 1972, and at present there are hardly two dozen of them.

And yet developed technology, capital and marketing possibilities were coupled to the decree--at least in the headings. Thus far our most beautiful dreams have not been realized. Our regulations, like a jungle, hold back the meeting and shaking hands of the two parties, and not a few of them encourage fraud, not adoption. The procedures for getting authorization can drag on for years, and ridiculous restrictions and prescriptions hinder the capitalist in elementary things. He must request an auto use permit, naturally he also gets the customary per diem (31 forints) if he goes to the country, and he can send only half of his pay home in foreign exchange, which also means, according to

the Hungarian rules, that he cannot even pay his monthly house rent out of the other half--if they ask for it in foreign exchange. Not even to mention measures which go even deeper into the pocket, for example, the duty charged on machines constituting his own property and not brought in for sale. And there is also a prescription that the so-called duty-free zones must be surrounded by a fence 3 meters high. It makes no difference now what a duty-free zone is; such a condition might be made in the case of a secret military installation, but not in connection with installations intended to entice capital. It is as if our Feri had tied on backwards--instead of using a hand brake.

But I have good news, too. Capital has a tough nature, and if things go well otherwise it is willing to struggle for the money. Up to a limit. It appears that the domestic track conditions are beginning to change (most of the mixed enterprises were formed in the last 2 years), and if we succeed in putting up good traffic signs in the long run, even if we cannot travel at a certain speed, maybe we will reach Siófok before they put up the "full up" sign.

Budapest, 17 July 1984

Economic Institute Official Elaborates

Budapest OTLET in Hungarian No 29, 19 Jul 84 pp 10-15

[Interview with Andras Inotai, department head in the World Economy Research Institute, by Gabor Rejto]

[Text] At one time mixed enterprises were regarded as an unnecessary evil. Today more and more people judge them to be a necessary good. One thing is certain; with the spread of the economic view the ideological obstacles to the influx of foreign working capital are being cleared away. But our experience thus far calls attention to the fact that our attractiveness has not improved by leaps and bounds. What advantages does the import of working capital promise, and what steps must we take so that these advantages should become realities in time? Andras Inotai, department head in the World Economy Research Institute, answers our questions.

[Question] Today there are 23 registered mixed enterprises in Hungary. Fifteen of them were formed in the last 2 years. How can the upswing be explained?

[Answer] There was such a wave of interest in the second half of the 1960's, too, but only at the level of scientific research. At that time these studies had primarily an ideological-political coloration, and emphasized the role of the import of working capital as an exploitation of the importing country, deforming the economic structure, a role resulting in economic and political dependence. Today, that is, in the 1980's, the situation has changed. The question of the import of working capital--which here and now means essentially the mixed enterprises--is being judged more from the side of the economic facts. This different approach serves as an explanation of the upswing.

[Question] Which cannot be independent of the changed economic situation of the country, either. . . .

[Answer] It is not only the situation of the country which has changed; world economic conditions have also been restructured fundamentally. In the 1960's manpower was a shortage item in the capitalist world, a bottleneck. Raw materials left their stamp in the 1970's; in our present decade it is a shortage of capital. There is too little money in the world economy, and so it is increasingly expensive. Increasing the import or export of working capital seemed one possible answer to this challenge. So in actuality the so-called upswing domestically is a world trend, with the difference that it has been going on in the world for about 10 years.

[Question] Following late is virtually a national tradition for us. . . .

[Answer] This lag is not significant in itself. Today, the mastering of modern technical information is virtually inseparable from working capital. The overwhelming majority of all the innovations of the capitalist world derive from multinational enterprises covering continents, which is the most accomplished form of creating working capital. The technological gap now yawning between the developed capitalist countries and Hungary can be narrowed to a crucial degree only in this way, with the import of working capital. But the other side, marketing, is at least as important. The developed marketing channels of a capitalist partner enterprise could represent very real aid in the course of the hard struggle being waged for markets.

[Question] It appears on the basis of this that in a short time the mixed enterprises--of course, in a quite greater number--could put the Hungarian economy on its feet.

[Answer] Not at all. Our economy cannot yet put entirely behind itself the period of the struggle for stability. From this viewpoint, of course, an increase in the number of mixed enterprises might improve our situation temporarily. But this is not enough for longer-term survival. Working capital cannot take the place of a consistent economic policy, of a considered technical development policy. Indeed! Experience shows that actually it flows into those countries where such an economic environment is developing. Hungary today is in a state of relative consolidation, and this may be a one-time opportunity for fulfillment of the requirements just mentioned.

[Question] What is it, ultimately, for which capital is willing to enter into a partnership?

[Answer] The basic goal of capital is the broadest world market sales, naturally with a suitable profit. The size of the Hungarian economy could be attractive from the viewpoint of certain products, but the really big opportunity for capital is a market a good bit larger--not least of all the CEMA market. The basic paradox of the domestic mixed enterprises is that both parties want to acquire markets. The capitalists here and we in the capitalist countries. One solution to this conflict might be joint action on third markets, which could mean the developing countries and CEMA. The latter is

virtually entirely untried and unregulated. But it might be worthwhile to seek solutions which do not follow from the present CMEA mechanism, but which might lastingly increase the bargaining power and advantages of the Hungarian economy.

[Question] Does this exhaust our attractiveness?

[Answer] Capital is interested in having business go well. Market restrictions do not take away its spirit if it gets an advantage in other areas, compared to its own domestic environment or compared to its investments in the developing environment. It may be surprising, but in principle we can show such advantages. We have a skilled labor force and, in certain areas, a developed technology. As for the labor force, it is not the level of the special training which is attractive in itself but rather the wage difference between their own pay and that here—most strikingly in the case of the technical intelligentsia. So it is worth thinking about such a use of the intellectual capacities of the Hungarian technical intelligentsia, which is overtrained for its actual tasks. It appears that this would have advantages from several points of view. Of course, there are wage differences at lower levels of training also, but for the most part these are counterbalanced by the lower productivity.

[Question] In what areas would the participation of working capital in the Hungarian economy be desirable?

[Answer] Increasing the flow of working capital is closely connected with an acceleration in the process of structural changes which can be measured by international standards. From the viewpoint of the Hungarian economy it is primarily building up processing industry contacts which merits attention, if only because in an ever broader zone our export is meeting with products which have been produced in developing or weakly developed countries with the participation—usually direct—of foreign capital. Naturally, this does not mean that the inclusion of foreign capital would not be desirable in the area, let us say, of services or on the domestic market for consumer goods, for in a period when the standard of living is stagnating or declining, the improvement of supplies to the populace is not a factor to be neglected. But, in sum, we must face that at present capital is not coming to Hungary with open arms. It would be an illusion to think, for example, that we could solve the underutilization of domestic capacity by bringing in foreign capital. The underutilization of capacity is the consequence of an international structural change; the iron and steel industry, petrochemistry and other basic branches are struggling with serious problems in a large part of the world. And the Hungarian enterprises which are operating uneconomically can hardly hope that international capital will choose them. It can be observed around the world that capital is less inclined to create new enterprises today; rather, they buy up existing ones, but it is those which work well, which bring technical advantages and marketing chains into the marriage.

[Question] If we regard the bringing in of working capital as a tool, what path can we follow to reach this tool?

[Answer] A fundamental condition for the development of working capital contacts is a further strengthening of enterprise independence and appropriate aid for entrepreneurial activity, in a word, the execution of a consistent Hungarian economic strategy. The development of central guiding principles for a capital import policy fit into this. From a historical perspective as well it would involve serious consequences if—yet again—after 10 years we were to recognize the missed opportunities of strategic economic change.

FNC Businessman Describes Efforts

Budapest OTLET in Hungarian No 29, 19 Jul 84 p 12

[Interview with Daniel Nadj, business director of the Zalaform Limited Liability Company, by Katalin Gorgei]

[Text] "A good deal is one which is good for everyone," it used to be said in commercial circles. But if a deal is made, and we are still unsatisfied, we can only blame ourselves after the fact. Or should we?

We got together twice, but we could not speak for more than 5 minutes at a time. He was constantly called to the phone—from the provinces, from Munich. He bargained, arranged things, raged, begged (he never gave orders!); his tastefully appointed office was an international business center. For decades Daniel Nadj has dealt with the ready-made clothing trade. He is of Hungarian origin from Yugoslavia and a West German citizen. He is currently business director of the Zalaform company, with an FNC-Hungarian capital interest.

[Nadj] The Ministry of Financial Affairs authorized our import of a zip fastener manufacturing machine line for about 1 million forints, which was recorded by customs a year ago, and since then we have been manufacturing on it. At that time I showed the accounts, for 1,200,000 forints, and they accepted it. And now, a year later, the MAGEV [Technical Material and Machine—Trade Enterprise] has evaluated the machine at half. Considering that this sum counts as part of my capital share, this decreases the value of it. And the machine was used already and its price does not represent 20 percent of a new one. Naturally we will appeal to the Experts' Institute.

[Question] Do you get such surprises often?

[Answer] Alas! Every 10 or 20 days.

[Question] Are you sorry you began a new undertaking in Hungary?

[Answer] I have been working with Hungarian enterprises for 17 or 18 years. I am the owner of the Neue Mode Pannonia firm and organize piece work for ready-made clothing industry products, 90 percent of which are shipped through the Hungarocoop Foreign Trade Enterprise to the FNC, Switzerland and Austria. In recent years I have arranged direct barter between Hungary and a few Western European countries. Since money is short around the world this form of business is increasing; last year we did 10 million dollars worth of trade—in both directions. But I also know that I cannot act as an intermediary forever;

today this is needed, tomorrow it will not be. But I would like my business in Hungary to take root. I feel myself to be a Hungarian, my wife lives here too. So I won't give up.

In December 1982 the Neue Mode Pannonia firm in Munich and the Csertamenti agricultural cooperative in Csomoder signed an association contract as a result of which a joint enterprise was established in Hungary under the name of the Zalaform Limited Liability Company. The license for the association applies to the manufacture and export of ready-made clothing industry products and the production of plastic injection molded zip fasteners, which count as a shortage item in Hungary. They save on imports with the latter. The basic capital of the company is 10 million forints, of which the cooperative's share is 5 million and that of the West German firm is 4,900,000. The capital subscription of the Hungarian party consists of renting to the company for 20 years a former barn, a newer building and machines.

[Question] And what happens if in the meantime the company ceases to exist or the producer cooperative pulls out of the deal?

[Answer] I get back my capital. If the cooperative leaves the company they pay the rental fee for 20 years. But what will this sum be worth after 20 years? It is a rather strange contract deal.

[Question] Really. But it is also strange that you should say so. Why did you form a partnership with the Csertamenti producer cooperative?

[Answer] In the first place because they were offered. They promised everything. So the cooperative became not only a founder of the company but also one of its subcontractors. Hungarian clothing industry overhead costs run between 300 and 400 percent and theirs are under that, they said. I just bring in the zip fastener machines, they would get all the raw materials and take care of everything.

[Question] It appears from your tone of voice that all this remained only a promise. . . .

[Answer] Unfortunately. My machines have been here for a long time, but some of the materials needed for manufacture still arrive irregularly. We had to manufacture a number of the tools here--on the basis of samples--but by the time they were made they were unuseable, despite the fact that--in my opinion--a mediocre artisan could have made them very well. . . .

The hourly overhead fee in the Hungarian clothing industry is 60-90 forints; the cooperative asked 95 forints from the company. But at these prices we cannot export. We planned to do 35 million in business this year, but it appears that we will not reach it. If we just keep fighting with Csertamenti cooperative we will dissolve the subcontracting contract and manufacture with others. They would remain founding members of the company and get their shares. But to return to the "strange deal," the original agreement said that the cooperative would bring buildings into the company. My machines were here already when I learned that Hungarian real estate cannot be the property of a foreign firm, a limited liability company.

[Question] You are not a beginner. Why did you not inform yourself earlier?

[Answer] I talked with lawyers, with experts from foreign trade enterprises, the Financial Institute Center and the Chamber of Commerce. Despite this, a lot of things came out only when we were under way. The biggest problem is that they are treating us first as a foreign enterprise and second as a Hungarian enterprise, regardless of whether Hungarian interests desire this. If we want to hire someone we need a permit from the Financial Institute Center. If we make price calculations then again we are a Hungarian firm, and can count only on the 18.5 percent retail and wholesale price margin. I can tell you that if the binding price margin remains unchanged very few enterprises with a foreign capital interest will be created in Hungary. There are a good many ambiguous provisions in the Hungarian economic regulations. For example, in a justified case one can disregard the binding price margin. The only problem is what I regard as justified and what the regional control directorate regards as justified. Uncertainty does not encourage anyone to invest in a business.

And then there is the regulation pertaining to unfair profits. If a person reads this he will be no wiser, or if he is he will give up in advance on starting anything.

[Question] But we have a regulation regulating the operations of a limited liability company.

[Answer] Sure, Law No V, 1930, a modified version of which is still valid. It sets rules which are too general, and so it is too little. The frequent changes in regulations here create such confusion in peoples' brains that often they cannot help even with the best intentions.

[Question] Still I get the feeling that you did not study adequately what you were getting into. Who does the work in the company?

[Answer] There are five of us. In addition to me there is a business director, a technical chief and two officers who also make the deals. Is this a lot or too few? I began work in the FRG 20 years ago with many people. According to the Yugoslav practice I contracted someone for every idea. I need not say that I had to throw in the towel. Then I began over alone, then hired one person, then two, and so forth. Now, in the FRG, I have four colleagues, doing business of 20 million marks per year, in addition to direct barter.

[Question] Are you considered a "hard man"?

[Answer] If you give me orders then I am a hard man; if you talk to me nicely then you could butter your bread with me. I do not know what to think, every day I get letters from the ministries and various organs: "I order that. . . , I direct that. . . ." I believe in teamwork.

* * *

[Insert] Gyula Acs, president of Csértamenti agricultural cooperative, was my guide to the buildings remodeled for the purpose of manufacturing ready-made clothing and zippers. "Tell me frankly, can you see that this building was ever a barn?" In truth, no. In the smart little plant—there should be such conditions everywhere—were rows of machines and work tables. Piles of ribbon and other raw materials were heaped up in the warehouse. "What you see here is 5 million forints. We were forced to buy it. Even if things have bumped along so far, at least we will not have raw material problems for a while. The producer cooperative loaned this sum to the company, because the association does not have this big a circulating fund yet. Now the company is trying to get a bank loan so it can 'buy' the clothing plant. This would solve our disagreement in connection with the overhead fee."

"Why was it so difficult to organize manufacture?"

"It is not easy to organize raw material supply even at a large enterprise. But I can certainly say that we did find a suitable man for the tools to be made on the basis of the German sample."

"Do you feel that the comments of Mr Nadj are just?"

"It is a fact that we are forced to adjust to the price level which has developed in the branch in the price of our products sold domestically, and the bindingly prescribed price margin does not ensure too great a profit. But it is also true that Mr Nadj, following his own logic, frequently finds it difficult to understand the domestic regulations."

"What do you expect from the company?"

"In time, greater income compared to the average profit of the cooperative."

Legal Ambiguities, Contradictions

Budapest OTLET in Hungarian No 29, 19 Jul 84 p 13

[Interview with Dr Emilia Sebok, of the Agricultural Research Institute, by K. G.]

[Text] If the founders of mixed enterprises have a silent prayer it is certainly to learn all the conditions for founding and operating them, put simply and precisely and if possible in one place. It appears that Dr Emilia Sebok, of the Agricultural Research Institute, heard their desires. She has edited a handbook which discusses the economic conditions for bringing in foreign capital, putting the basic regulations in order and explaining their application.

[Question] Why did the Agricultural Research Institute, and why did you, undertake this timely task?

[Answer] We undertook the writing of a guide for founding mixed enterprises on the basis of a commission from the Animal Husbandry Research, Development and Production Association in Kaposvar. I and several colleagues had prepared an earlier study, but it was thought better if one person prepared a handbook demanding such strict systemization. The basis for the request was that several member farms of the Kaposvar association were planning to form mixed enterprises in the interest of supplementary export. If others also are interested in the guide they can order it from us.

[Question] Let us presume that after a circumspect analysis of its economicalness the founders find that a mixed enterprise would serve their mutual interests well. How would they begin the formalities of founding an enterprise?

[Answer] The precise liturgy provided by the regulations prescribes the general procedures for founding one, but this provides systematic orientation only for the authorization. In the case of mixed enterprises, in addition to the general provisions applying to the two types of firms used here thus far—the limited liability company and the joint stock company—there are unique laws, almost relics of legal history, which, together with newer decrees, regulate the founding, operation and possible liquidation of mixed enterprises. These two basic laws are the 1875 Commercial Law and the 1930 law pertaining to limited liability companies. Since by profession I am an economist and not a lawyer I may be spared the charge of prejudice when I say that these two laws are outstanding products of the legislation of their age which can serve not only as an example for contemporary drafters of regulations, because of their clear, precise provisions, but if they were to be modernized in the future they would contain the most important prescriptions. In their time these laws took into consideration the best achievements of European legislation and the needs of entrepreneurial practice, and were drafted after several years of professional debate. Modernized versions of the laws which served as examples for the Hungarian legislation of the time are still in force in Western Europe, where the limited liability form is quite widespread.

[Question] So what is the real problem, if it is not that these laws are old—50 or 100 years old—and certain of their points necessarily obsolete?

[Answer] In the first place, it is difficult to get at the two basic laws, but the real difficulty is represented by the legal labyrinth in which the founders get entangled. According to my information, the number of legal sources which must be taken cognizance of is 5 laws or law decrees and a total of 45 decrees, decree amendments, resolutions, etc. With such a volume of prescriptions it is virtually certain that one will find provisions which contradict one another or are difficult to interpret. When applying more recent regulations it is a frequent problem that they were drafted to regulate the general Hungarian enterprise relationships, whereas shares of foreign capital or employment of foreign workers create unique circumstances. It may appear to be a question of detail, but the source of long disputes is wage payment to foreign workers or how the collective contract can be signed.

[Question] It is said—if again in questions of detail—that there are legal gaps in the regulation of these undertakings.

[Answer] The biggest legal gap, in my opinion, is that the legal status of these undertakings is unclear. The Civil Code does not list them among the managing organizations, so they are not managing organizations. For this reason, for example, a mixed enterprise cannot sign a transportation contract. At the same time, in other questions—if the regulations do not make a definite exception—the rules providing a guide for managing organizations performing the same activity according to branch must be applied to the operations of the association. So in this sense they must be regarded as managing organizations.

In general, flexible measures by the authorities—and there are such measures!—solve the problems deriving from smaller legal gaps. For example, the limited liability company law prescribes that before the association is registered it must turn in all of its ready cash deposits and capital shares. This can run into technical difficulties, because prior to registration the mixed enterprise is not a legal person, and only an organization which is a legal person can get an import permit. In such a case, if it has a resolution from the Ministry of Financial Affairs approving its founding, it can request an import permit free of foreign exchange from the Ministry of Foreign Trade to bring in the machines, equipment and other goods which can be counted as capital shares if this makes up the capital deposit of the foreign partner.

[Question] Domestic mixed enterprises have proliferated in recent years. It appears that they are paying their tuition. But how can it be avoided that they pay more than necessary?

[Answer] It is extraordinarily important that the enterprises determine precisely for what economic activity they want to form a mixed enterprise. They must clarify in what, to what extent and, if it can be foreseen, for how long the common interest of the partners will obtain. I know this appears very obvious, but unfortunately previous experience shows that the Hungarian enterprises get into these undertakings with exaggerated hopes, and later they are taken aback on seeing results smaller than expected. Perhaps one reason for this is that in past decades the Hungarian enterprises could get no experience in founding enterprises, such a talent or routine could not develop in the leaders. They may regard the mixed enterprise as an association which is not a legal person or, in some cases, as an auxiliary operation. But a mixed enterprise is an independent legal person, with its own capital and its own leadership. Thus the material risk of the founders is a good bit greater here than, for example, in a foreign trade association. Here also the founders have the right and possibility of having a say, of supervision, but they cannot give orders to the new enterprise in the way they can to their own factory or auxiliary operation.

Mixed Enterprises in Ireland

Budapest OTLET in Hungarian No 29, 19 Jul 84 p 14

[Article by E. F.]

[Text] In the spring of 1981 they dedicated with very high hopes in the city of Cork in Ireland the newest western mixed enterprise of the Tungram joint stock company. But 3 years later, a meeting of stockholders held on 2 February 1984 was forced to decide for liquidation of the factory.

Actually not one but three legally independent mixed enterprises were established in Cork in 1981. In addition to the Tungram Manufacturer production enterprise, there was Tungram Exports, selling the products of the factory, and Tungram Distributors, dealing in the products of United Incandescent manufactured in Hungary. The shares of the first two mixed companies were divided up as follows: 60.8 percent to the Tungram Joint Stock Company, 15.2 percent to the Foreign Trade Bank Joint Stock Company, 10 percent to the English agent of Tungram and 14 percent to three Irish private persons. Tungram Distributors was owned 66 percent by United Incandescent and 34 percent by the Irish.

Tungram Manufacturers and Tungram Exports operated at a loss from the first moment, and as time passed this sum did not decrease, but kept swelling. The factory was late getting started and due to the large sum of loans the interest burden was a good bit larger than usual at the start. Training the Irish workers went with much more difficulty and took longer than expected, and it caused a special problem that after the first 8 months the supervising Hungarian technical expert came to Ireland, more precisely to the factory hall, only on occasion, although he was needed virtually every day. The preliminary market surveys also proved defective, for it was possible to sell the incandescent bulbs for only 11 pennies instead of the planned 14, and that only after a time because—it sounds quite bizarre but it is true—the first products of the factory did not meet British standards. This is very strange indeed because the factory was built expressly to win the EEC market, thus the British market, among others.

In the summer of 1983 the Irish pulled out of the deal and in February 1984 there was a meeting of the remaining stockholders and it was decided to liquidate Tungram Manufacturers and Tungram Exports. (Tungram Distributors "survived" the crisis because to the very end it produced substantially better results than its fellows.) A meeting of the creditors was convened the same day. The biggest losers were the Tungram Joint Stock Company and the Irish Development Authority; the latter had given no less than 1 million Irish pounds to the mixed enterprise, which would not have had to be paid back if it had shown a profit.

The extraordinary meeting of stockholders appointed a liquidator whose task it is to sell the factory building and machines. The liquidator is supervised by a four-member committee appointed by the creditors. The creditors do not have much hope of seeing their money again in a short time, or even a part of it.

Ireland is trying to entice foreign capital by offering finished factory buildings to interested foreigners. There are many empty buildings around the country so it can be easily imagined that the Cork factory will not find a purchaser for years. As for the machines, the Tungsram Joint Stock Company will be forced to buy them back, naturally for hard currency.

Mixed Enterprises Registered in Hungary At The End of 1983

<u>Name of Enterprise</u>	<u>Year Established</u>	<u>Foreign Owner</u>	<u>Hungarian Owner</u>	<u>Purpose</u>
Sicontact Ltd.	1972	Siemens AG, FRG	Elektromodul, Remix Inter-cooperation Co.	Service cooperation
Redelcor Ltd.	1973	Corning Corp.	Redelkis	Producer, blood gas analyzer
Volcom Ltd.	1973	Volvo	Csepel Auto Factory, Mogyor	Producer, Laplander manufacture, modified profile, Volvo representative
Sphero-Evig Ltd.	1981	Ling Co. KG, Standard Motoren AG	Evig Inter-cooperation	Production, heat pump
Central European International Bank Co.	1980	Six banks	Hungarian National Bank	Banking activity
Budapest Casino Ltd.	1980	Osterreichische Spielbanken	Danubius	Gambling
BCR-Lilly Ltd.	1980	Eli Lilly SA	BCR Works	Veterinary products production, but only a supplier
B+Z Ltd.	1980	Zyma AG	Biogal, Medimpex	Pharmaceutical industry primary materials, producer

<u>Name of Enterprise</u>	<u>Year Established</u>	<u>Foreign Owner</u>	<u>Hungarian Owner</u>	<u>Purpose</u>
Skala-Luescher International Ltd.	1982	Luescher AG	Skala Corp.	Operation of game automats
Qualiplastic Ltd.	1982	INTERAG ALN Corp.	PERU	Reprocessing plastic waste
Econoservice Ltd.	1982	Horisont AG	Sigma Co.	Agency
Metritechnik Ltd.	1982	FESITO CIB	Metrimpex	Service
Zalaform Ltd.	1982	Neus Mode Pannonia	Csertamenti Agr. Coop.	Production
Monopharma Ltd.	1983	Medipharma AB Sweden	Monori state farm, Pharmatrade	Production of Lactifarm M 74
Skala-Arab Commercial Development Ltd.	1983	Rona Trading HIB	Skala Coop.	Commercial service
SG 2-MKP Financial Informatics Ltd.	1983	Societe Generale	MKB	Computer technology service
Cargopack Hungarian Ltd.	1983	Cargopack	Volanpack	Packaging activity, service
Danube-Main Construction Industry and Commercial Ltd.	1983	Deuma	ASZ Budapest, Technimpex	Construction industry activity
CM Diebold Hungary Ltd.	1983	Diebold	Comporgan, Metrimpex	Organization
Tungsten-Schreder Lighting Technology Co.	1983	Schreder	Tungsten MAT	Manufacture of lamps
Olympos Ltd.	1983	Arvanitis SpA	Kacsanak Spark State Farm, AGKER Ltd., Hungarofruit	Fruit juice

<u>Name of Enterprise</u>	<u>Year Established</u>	<u>Foreign Owner</u>	<u>Hungaria Owner</u>	<u>Purpose</u>
Hungarofeder Feather-Processing Ltd.	1983	V. Bauer Bett federnfabrik	Hungarotex, Mako Lenin Ag. Coop.	Cleaning poultry feathers, producing ready-made articles
OTP-Penta Tours Ltd.	1983	Penta	OTP [National Savings Bank]	Tourism office

The Odd Couple

Budapest OTLET in Hungarian No 29, 19 Jul 84 p 15

[Interview with Miklos Szebeny, main department head in the Sicontact Limited Liability Company, by Eva Szenes]

[Text] The Siemens House, whose history began in 1847 with the founding of a telegraph factory, is today among the five largest electrical industry enterprises in the world. In 1974 the mammoth firm established a mixed enterprise in our homeland under the name Sicontact Ltd. To what can we attribute the attention to Hungarian industry, and what sort of mutual advantages derive from the relationship? We asked Miklos Szebeny, main department head in Sicontact Ltd., about this and other things.

[Answer] The Hungarian contacts of Siemens go back to the time before World War I. In the years between the two world wars they continued to build factories and business offices, which were nationalized after the liberation. The history of the "new age" begins in the second half of the 1950's and cooperation contacts were established in the 1960's, in which the first partner was Medicor. The first representation contract was signed in 1968 with the Intercooperation Joint Stock Company, which was formed then.

[Question] And Sicontact?

[Answer] Sicontact Ltd. began operations in 1974 with 51 percent Hungarian and 49 percent West German capital participation. Both parties regarded the first agreement as an experiment, and we agreed that if the hopes attached to it were not realized then we would break up the contract after 3 years.

[Question] Was the situation of the "pioneers" easy or difficult?

[Answer] We had our problems. The basic decree on mixed enterprises appeared in 1972, later modified by an implementing directive. Deficiencies were discovered, unacceptable terms for a Western firm, and so it took a total of 2 years to create the conditions necessary for establishing the Sicontact Limited Liability Company.

[Question] Did it really represent mutual advantages to establish a mixed enterprise with a mammoth firm known around the world?

[Answer] Thanks to the cooperation contacts the experts obtained more and more technological knowledge and could become acquainted with little intellectual ideas, too. At the same time, there was an existing need for the Siemens equipment arriving in our homeland, the supply of parts and the service network, to function continually and reliably.

[Question] What could be the reason why, after 10 years, Siemens still stands alone with this practice in the socialist countries?

[Answer] The Hungarian economic mechanism today ensures much freer movement to the enterprises. In a more bindingly directed economy a link of this character would lead to overly great conflicts. . . .

[Question] And here? According to professional public opinion the technological level and discipline of Hungarian industry lag far behind the world level.

[Answer] Public opinion frequently generalizes. Today, Siemens is cooperating with at least 20 Hungarian enterprises, and on the basis of my own experiences I can say that the coproduced products which are made here are of equal value with the Siemens products in every respect, whether we look at quality, price or the economicalness of production.

[Question] I do not question that, but cooperation aside, the factories working on orders for Siemens must "face" the equipment level and delivery disciplines of the Hungarian background industry, not to mention the fact that probably the workers working in the two sorts of "relationship" are paid differently, too.

[Answer] The weaknesses of background industry must certainly be taken into account; in general, we seek lines for which no or few chippers are required. Usually this is Siemens itself, which delivers punctually—for example, insulation foil for Ramix condensers. Certainly a factory director linked with Hungarian partners might talk more precisely about his possible problems. I have not yet heard of a case where there were problems because of slippage in delivery times. As for the wage tensions, the representatives of Siemens have asked about this frequently, too. Experience shows that the differing wage payment does not cause tension; on the contrary, it is an attractive force for the others.

[Question] How have your contacts developed over the last 10 years?

[Answer] It is more and more difficult to find new cooperation opportunities. Of course, this is a problem not only for Siemens but for all large capitalist enterprises. They have to think six times about whether to begin manufacture of a product abroad, because they will immediately find themselves faced by the trade unions, which demand the creation of new jobs. Recently we have been

signing more and more agreements, the "end products" of which are sold on domestic, socialist or third markets, but Siemens does not want to buy them back.

[Question] Your situation seems very dependent. . . .

[Answer] Not at all. It is advantageous for us if we use technology which replaces imports and manufacture products which used to be purchased for foreign exchange. In any case the agreements are not made by impulse; the National Technical Development Committee and the leading committees of Siemens regularly agree on long-term advantageous possibilities. It causes many problems that more and more of the CEMA member countries would like to manufacture those products which were "classical" Hungarian items in the time of specialization. And Siemens is in the advantageous situation of accepting the most favorable bid. We have precedence with regard to the old contacts, but only if this pays off in money.

8984

C30: 2500/537

FINANCING OF ENVIRONMENTAL PROTECTION ASSESSED

Warsaw AURA in Polish No 6, Jun 84 pp 5-6

[Article by Ewa Bogacka-Kisiel and Zbigniew Traczynski of the Academy of Economics in Wroclaw]

[Text] The economics of environmental protection emerges separately from political economic theory. This point is shown in the causes of this separation, but we also have to look further for the results. It seems that one of the results of the separation between socioeconomic and political economy is a lack of order in the financial system in undertaking related matters as regards environmental protection.

The financial sources for outlays for environmental protection are budget funds, enterprise funds and other funds not related to the budget. Together with these funds, we have to use other financial instruments to undertake these tasks.

The principles of economic reform in the first plan have superseded the enterprises' own funds. In the 1982 Central Development Plan, there were only eight capital investment tasks for environmental protection, continuations of tasks begun earlier. Therefore, most of the decisions concerning capital investment for environmental protection should be carried out by independent enterprises. Considering all of this, we question whether the enterprises will decide to put some funds into environmental protection or whether they will implement this task. Probably not. To accentuate this doubt, we note the inclination of the enterprises to seek immediate results rather than to wait for a longer period. As regards financial outlays for environmental protection, only those enterprises with solvency can afford it.

According to the National Socioeconomic Plan [NPGS] for 1984-85, the budget will take around 64 percent of the enterprises' profits. For example, in 1985, 900 billion zlotys will be taken from 1,400 billion zlotys. At the same time, the share will increase from 43 percent in 1982 to 53 percent in 1985 and even then their credit debt (without housing cooperatives) will increase by about 800 billion zlotys. As of today, the enterprises' debt, resulting from bad decisions in the 1970's, stood in 1982 at approximately 1,425 billion zlotys, a tremendous burden for the enterprises. The share of

their profit to pay off credits was 81.8 percent in 1976 and 91.5 percent in 1981. In this situation, the enterprises' profits are not sufficient to finance capital investment for production.*

The situation will not improve much with the introduction of tax writeoffs for outlays earmarked for environmental protection. A tax credit of 30 percent will be given for environmental protection on the condition that the outlays have occurred over a 2-year period. This condition is unrealistic. Above all, the regulations state that the entire reduction cannot be more than 20 percent of the tax and, therefore, this tax credit can be used only for small capital investment undertakings.

To this point, the budget has not paid much attention to outlays for environmental protection. In addition, the 3-year plan through 1985 provides little more than 1 percent of the overall budget for the halting of environmental degradation. This is not much money for environmental needs and it is only a symbolic share of the budget for environmental protection.

We acknowledge that the financing of environmental protection directly from the budget is an unusual method of financing. This is a result of known deficiencies in the budgetary means of financing. The various tasks in the budget are competitive. Although everyone understands the importance of it, environmental protection has a difficult time competing for funds with current production tasks and apartment construction. As a result, we fear that very important tasks will not be realized when funds are short. This also results from the fact that payments for budgetary concerns are anonymous as to their end purpose. It seems that the budget should finance environmental protection directly, because the damage can or could be from the budgetary units or the so-called organizational units (plant and equipment). The budget should also participate in the financing of the creation of a branch for environmental protection. This is a matter for the future, which is not that far away considering the environmental state of many of Poland's regions.

Special-purpose funds serve as a counterweight to the deficiencies of budgetary financing. The legal act creating a given fund guarantees that the funds will be used for the purpose for which they were created. Moreover, these funds have the advantage that they do not expire at the end of the year but rather accumulate and become a base for many years of financing other undertakings.

There are in Poland four special-purpose funds for financing undertakings for environmental protection. They function alongside 15 other central funds and 13 regional funds. The availability of increased funding has become a remedy for inadequate financing of some goals from the national budget, but it also has limited the flexibility of the country's finances. There is evidence of low effectiveness of these funds. However, under

* W. Manugiewicz: "Sources of Financing for Capital Investment in the Socialized Economy in the Years 1976-81," *FINANSE* No 1, 1983, p 47.

conditions of enormous neglect in environmental protection, there is still too much distance between outlays for production and those for environmental protection. The low effectiveness comes from inadequate outlays for environmental protection. According to assumptions made in the Program for Environmental Protection in Poland, outlays for environmental protection should have been 4.3 percent in 1976-80 and 4.4 percent in 1981-85. But in reality, outlays were 1.2 percent in 1976-81 and 2-2.9 percent in 1983-85. This is not enough for the urgent needs. For example, the cost of building a water purification plant in Warsaw is 12-14 billion zlotys and construction will last at least 12 years. In Poland, 50 percent of the cities and 35 percent of the industrial plants do not have water purification plants. And where are the outlays for reducing air pollution, waste and auto pollution?

We do not want to specify the needs, seek out the "guilty" or reiterate that environmental protection is costly. Nonetheless, the costly problem of environmental protection requires more research, which later could lead to more effective outlays. Only is there enough time remaining for the political economy to resolve this problem? We think that environmental protection is paramount and that it cannot be realized by the best programs or so-called citizens' attitudes. For environmental protection, we need money and after that good political decisions. But it can also be the opposite: political decisions that are good and money. There have already been many political decisions on the environment, but too little money remains for this purpose. It is our view that it is very important to define the financial sources for environmental protection, the abundance of those sources and their disbursements.

Special purpose funds should become to a large degree the financial source for capital investment in environmental protection. However, these require:

- 1) an increased abundance of these funds;
- 2) the creation of larger possibilities to subsidize the enterprises' capital investments in environmental protection from special-purpose funds (at present, the subsidy from the environmental protection funds cannot be more than 30 million zlotys);
- 3) the establishment of a hierarchy of capital investment tasks to be defined from special-purpose funds or the creation of a regional authority to make independent decisions in this area.

On this occasion of considering solutions for the role of the economy in shaping the environment, one must touch on the issues of penalties, prohibitions and order. Most often we doubt whether the penalty (which is a small source of profit for environmental protection funds) should be the subject of the environment's economy. In fact, logical theory patterns permits a negative role for penalties in environmental matters. However, we have to acknowledge that penalties will be used for a long time for environmental protection, the more so as the payments system for the area of environmental protection is poor. As of now, we do not understand why

the penalty system is functioning so poorly within the law. Indeed, we could mention some causes, but they are difficult to quantify because of subjectivity. Moreover, we do not know whether the poor functioning of the penalty system is due to legal reasons or the economic-financial system of the enterprises. Many estimates on this subject could be made by intuition.

The connection between penalties and financial results (losses and profits) is indisputable. The legal regulations are such that penalties act doubly on profit, either directly or indirectly through the income tax. The influence of penalties on profits could be up to 3 times or 10 times in Katowice Province. Will this motivate the enterprises to undertake costly investments for environmental protection?

9807

CSO: 2600/1120

END

END OF

FICHE

DATE FILMED

20 Sept. 1984